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ABSTRACT

Descriptions of the policies and procedures used by 11 colleges and universities in the administration of institutional investments and endowments are presented. In addition to statements of investment goals, policies and procedures for deferred giving and social responsibility in investment are included. Statements are reproduced exactly as received from the institutions. The following institutions are contributors: Amherst College (Massachusetts), Berea College (Kentucky), Carnegie Mellon University (Pennsylvania), The Common Fund, Kalamazoo College (Michigan), the University of Minnesota, Northwestern University (Illinois), Smith College (Massachusetts), Stanford University (California), Tufts University (Massachusetts), and the College of Wooster (Ohio). (MSE)

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Investment Policies and Procedures at Selected Colleges and Universities

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Note: The pages herein were reproduced as submitted to NACUBO, the only difference being the addition of special page numbers for this publication. These numbers are centered at the bottom of each page, and refer to the numbering system used in the table of contents.

INTRODUCTION

For many colleges and universities, endowment and similar funds are a significant portion of an institution's total assets. The revenues derived from these assets are an integral part of the institutional budget, and projections of such revenues must be based on well-founded policies -- rigid enough to provide clear and constant direction for all concerned, yet flexible enough to accommodate to changes in the economy and the securities markets.

In meeting their stewardship responsibilities, colleges and universities must weigh current, operational needs against future needs. Ideally, today's students and those of future generations will benefit equally from an institution's invested funds; this requires a prudent, consistent philosophy that is demonstrable and unambiguous.

To promote better management of the funds entrusted to colleges and universities, selected institutions have made their investment policies and procedures available to NACUBO. The reader may find that some of these are quite similar among institutions; if so, this may be an indication that what has worked well for one college or university has been adopted by another. In addition to the statements of investment goals and objectives, included are policies and procedures for (1) deferred giving and (2) social responsibility in investing. In recent years, institutions have found the need to develop policies in both these areas.

These statements are provided for information only, and NACUBO neither approves nor disapproves of any of them. The following are hereby acknowledged for the willingness of their officers to share with others their investment policies and procedures:

Amherst College
Berea College
Carnegie-Mellon University
The Common Fund
Kalamazoo College
University of Minnesota
Northwestern University
Smith College
Stanford University
Tufts University
The College of Wooster

April 1977

Investment Policies

Carnegie-Mellon University

D R A F T

INVESTMENT POLICY
AND RELATED MATTERS

G. O. Luster

February 2, 1977 (Revised)

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SECTION I. INTRODUCTION

The prime purpose of this document is to provide the basis for the University through the Finance Committee and the Investment Subcommittee to properly discharge its responsibilities with respect to the maintenance and enhancement of endowment funds.

Endowment management is directed toward (1) generating income (payout) to provide for current needs, (2) maintaining a base for generating income to meet future needs, and (3) providing for possible major emergency needs. The amount of endowment income used to supplement other annual revenues is a variable and it is the intent of the stated investment policy to reflect, at any given time, the intent and objectives of the Trustees with respect to investments and investment income.

A corollary objective of the Trustees and the administration should be the attempt to manage adroitly the difference between the normal annual revenues and costs of the educational and research activities so that a controlled balance between tuition and the use of endowment income can be maintained. The success of the University in achieving this objective will be a principal influence on the investment policy.

A second principal influence on investment policy will be, at any time, the current and expected rate of inflation and the consideration of how much inflation can be offset by new money as opposed to appreciation of existing monies.

It is contemplated that the philosophy, policy, and other guidelines stated herein will be reviewed by the Finance Committee at least yearly and will be updated and modified as required to recognize current market and economic conditions in general and the University's current income needs specifically.

SECTION II. RESPONSIBILITY FOR INVESTMENT POLICY

The By-Laws of the University establish overall responsibility for the investment policy of the University:

Article IV, Section 5:

> "The Finance Committee, without further approval of the Trustees or Executive Committee, shall be responsible for the investment and reinvestment of funds and the purchase and sale of securities constituting the endowment or designated endowment of the Corporation, and shall prescribe and approve the investment policies for any investment agents acting for the Corporation."

The Finance Committee has directed its Investment Subcommittee to prepare and regularly update investment policy recommendations, to select money managers, and to provide ongoing performance analysis; recommendations of the Investment Subcommittee are subject to the approval of the Finance Committee.

SECTION III. INVESTMENT PHILOSOPHY

The University, in its investment philosophy, recognizes a continuing belief in a free enterprise society supported by publicly owned businesses; and the University's endowment funds principally should be invested in equity and debt securities of American corporations. Notwithstanding, the University from time to time may consider it reasonable and prudent to invest in other investment vehicles.

The University's investment philosophy is based upon recognition that in any economy or over any appreciable time period there probably will be an inflationary loss of purchasing power of a dollar of endowment. Consequently, the endowment funds in total should be expected to grow by an amount at least equivalent to the rate of inflation over a reasonable time period (three to five years).

Historically, over extended periods of time, equity investments generally have grown (dividends and appreciation) somewhat faster than inflation and it is expected that such a trend will continue. Consequently, over the long run equity investments generally provide the best hedge against inflation and a deterioration of the base. Even so, the major part of endowment growth must come from the addition of new gifts.

The University will not directly and internally manage any portion of the endowment or similar assets except those assets which cannot be disposed of because of donor restrictions or marketability and which essentially are not liquid or because of their size or value cannot be feasibly and economically managed by external advisers. The University

will retain multiple investment advisers to manage the assets of a specific fund or a portion thereof in order to provide (1) greater diversification of investment policy and judgment and investment opportunity and risk exposure, (2) a positive influence on performance through long-term competition, and (3) a broader basis on which to compare and judge investment performance.

Investment advisers shall be selected from strongly established and financially sound organizations which have a proven and demonstrable record in managing funds with characteristics similar to those of the University. Selection will depend upon factors established by the Finance Committee from time to time.

SECTION IV. GENERAL INVESTMENT POLICY

Overall investment policy of Carnegie-Mellon University has the objective to obtain the best possible return on investments and that such return is the sum of the yield (defined as interest, dividends, etc.) and gain (defined as appreciation, realized and unrealized) commensurate with the degree of risk* the University is willing to assume in obtaining such return.

The University, because of its specific characteristics and current income needs, may have one general investment policy under current conditions and a different one at some future time. The principal hinge for changing policy is the extent of current income needs at any given time to supplement normal annual educational and research revenues by endowment income (payout). In conjunction therewith, the debt/equity ratio of the total investment program may be modified from time to time based on an analysis of the income need correlated with an expectation of future returns and the degree of risk assumed.

Considering current income needs of the University to be significant at this time, endowment investment policy will have as a principal objective the achievement of current income (yield); appreciation will be a secondary objective.

Except for those funds where the assets cannot be commingled, those endowment funds described as permanent or discretionary shall be participants and own shares in a commingled investment pool and based on the number of shares owned will share equally in the investment results (yield and appreciation) of the consolidated investment pool. Various subpools of assets may be managed by different investment managers retained

*Specific investment constraints and the acceptable degree of risk applicable to all funds are stated in Appendix A.

by the University. (Funds whose assets may not be commingled include the GSIA Endowment Fund, the pooled life income funds of 1962 and 1970, the various annuity trusts and unitrusts, and the assets representing endowment gifts which cannot be disposed of because of donor restrictions, marketability, etc.) The assets of such funds, to the extent practicable, are subject to the same investment constraints prescribed for commingled funds.

SECTION V. INVESTMENT OBJECTIVES AND PERFORMANCE MEASUREMENTS - EQUITY MANAGERS

Over the long term, the equity manager must achieve an average total rate of return superior to the return which one might expect on fixed income securities. His minimum absolute performance goal shall be to achieve an average total return of . Consistency in achievement of the annual return and protection of principal shall be prime considerations.

Subject to any unusual circumstances, his performance will be judged over at least one full market cycle or over a three to five year period.

The equity manager, in his judgment, may from time to time establish and maintain positions in fixed income securities of short-term or intermediate-term nature when market and economic conditions suggest that a fully invested position in equities is not prudent. Convertible securities will be considered as equities.

SECTION VI. INVESTMENT OBJECTIVES AND PERFORMANCE MEASUREMENTS - FIXED INCOME MANAGERS

Over the long term, the fixed income manager shall be expected to achieve an average annual total rate of return higher than that achieved by the Salomon Brothers High Grade Corporate Bond Index or other more representative indices that may become available. Consistency in achievement of the annual return and protection of principal shall be prime considerations.

Subject to any unusual circumstances, his performance will be judged over at least one full market cycle or over a three to five year period.

SECTION VII. OTHER OPERATING PRINCIPLES FOR ALL INVESTMENT MANAGERS

Custodial responsibility for all securities will be designated by the Investment Subcommittee, and it is the present intent that there be only one custodian.

The Investment Subcommittee will retain the right to instruct investment managers to direct brokerage to obtain independent performance analysis and other services.

Performance measurements will be reported on a quarterly and moving 12 months basis.

In addition to providing performance data on the time-weighted total return basis, each manager will be requested to report on quality and risk.

When and as deemed desirable by the Investment Subcommittee, each investment manager will be furnished consolidated performance reports and/or individual performance reports (manager name deleted) so that he might judge his performance versus that of other managers.

INVESTMENT CONSTRAINTS

The Trustees desire to permit investment managers the greatest possible flexibility to maximize investment opportunities; however, they are acting as agents and must recognize the fiduciary responsibility of the Trustees to conserve and protect the assets of the portfolios and by prudent management prevent exposure to undue and unnecessary risk.

The following investment constraints are stated for general guidance. Exceptions thereto for individual and/or all investment managers may be made upon specific written approval of the Investment Subcommittee acting through the Treasurer or other responsible University representative designated by the Subcommittee. Such constraints or exceptions shall be reviewed at least annually to determine the desirability of their continuance.

WITHOUT SPECIFIC WRITTEN APPROVAL OF THE INVESTMENT SUBCOMMITTEE, EQUITY MANAGERS SHALL NOT HOLD:

1. More than of his portfolio in the securities of any one company at cost determined at the time of purchase or at current market value.
2. More than of the authorized and outstanding shares of any one company.
3. Securities in a company which does not have at least 5,000,000 shares outstanding and at least $80,000,000 in equity market value.
4. Securities in any company which does not have a record of at least five years of operation and three years of profitability in last five years.
5. Securities with less than an S & P rating of B+.

6. Any securities not listed on the New York or American Stock Exchange except banks and insurance companies.
7. Any securities of foreign companies unless listed on the New York Stock Exchange.
8. Any private placements.
9. Short-term debt instruments rated less than prime, P-1 or A-1.
10. Bonds rated less than A (see added constraints on fixed income securities under fixed income managers).

NOR SHALL THE EQUITY MANAGERS:

11. Engage in short sales or purchases on margin.
12. Engage in purchase of options.
13. Make direct investments in commodities or real estate.
14. Make any other investment which would appear to violate the fiduciary responsibility previously mentioned. Further, the Investment Subcommittee reserves the right to direct appropriate portfolio adjustments in any circumstance where two or more investment managers are investing in so similar a fashion with respect to individual companies, industries, or other common factor that the University could be subject to an overexposure or major risk.

FURTHER, IN DEFINITION OF RISK CONSTRAINTS EACH EQUITY MANAGER'S PORTFOLIO ON THE OVERALL BASIS SHALL MEET THE FOLLOWING OBJECTIVES:

	Minimum	Maximum
Current Yield (on equity portfolio only, excluding cash equivalents)		--
Beta	--	
Price Earnings Risk Multiple vs. S & P 500 (1)	--	
Quality Risk Ranking Based on S & P 500 (2)		--

(1) S & P 500 P/E Multiple = 1.0
(2) S & P 500 Quality B+ = 7.0
S & P 500 Quality A+ = 10.0

WITHOUT SPECIFIC WRITTEN APPROVAL OF THE INVESTMENT SUBCOMMITTEE, FIXED INCOME MANAGERS SHALL NOT HOLD:

1. Short-term debt instruments rated less than prime, P-1 or A-1.
2. Bonds rated less than A.
3. Any undue concentration of issues in any one industry.
4. Issues of any company with less than five years of continuous operation and three years of profitability in last five years.
5. More than of his portfolio in any single issue or any single company, except for obligations issued or guaranteed by the Federal Government, federal agencies, or government-sponsored corporations and agencies or money market instruments issued by domestic commercial banks or corporations.
6. Any convertible bonds.
7. Any preferred stocks.
8. Any foreign issues.
9. Any bond issue which at date of original issue amounted to less than $50,000,000.
10. Any private placements.

NOR SHALL THE FIXED INCOME MANAGERS:

11. Acquire any issue if he is a participant underwriter, unless the acquisition is made in the secondary market.
12. Make direct investments in commodities or real estate.
13. Engage in short sales or purchases on margin.
14. Make any other investment which would appear to violate the fiduciary responsibility previously mentioned. Further, the Investment Subcommittee reserves the right to direct appropriate portfolio adjustments in any circumstance where two or more investment managers are investing in so similar a fashion with respect to individual companies, industries, or other common factor that the University could be subject to an overexposure or major risk.

DESCRIPTION OF ENDOWMENT, QUASI-ENDOWMENT, AND TERM ENDOWMENT FUNDS SUBJECT TO OVERALL POLICY

To aid in the establishment of investment policy, the description of each endowment fund and its legal constraints, if any, is as follows:

A. The Permanent Endowment Fund represents a pool of funds given to the University where by donor restriction the principal of the funds cannot be invaded and only income may be used for the designated purpose except that under the Pennsylvania Non-Profit Corporation Law, a portion of the cumulative net realized gains may be defined as income and expended.

B. The Discretionary Endowment Fund represents a pool of funds the principal of which may be invaded. Some of these funds were established by donor direction; others were created by Trustee direction.

C. The GSIA Endowment Fund represents a pool of gifts for the Graduate School of Industrial Administration, the major part of which was given by one donor. The principal cannot be invaded, except to the extent provided under the Pennsylvania Non-Profit Corporation Law; and the fund cannot be comingled with other endowment funds for investment purposes.

D. The Old Life Income Fund represents a pool of life income trust gifts made to the University prior to the 1969 Income Tax Reform Act. The beneficiaries of each respective trust are paid their pro-rata share of the current yield generated

by the trust investments; capital gains or losses realized by the fund accrue to the principal and may not be distributed to beneficiaries. Upon the death of the respective beneficiaries under each individual trust, the principal becomes available to the University for the purposes described in each individual trust conveyance. In most trusts, the principal will become available for operating support.

E. The New Life Income Fund represents a pool of life income trust gifts made to the University subsequent to the enactment of the 1969 Income Tax Reform Act. The beneficiaries of each respective trust are paid their pro-rata share of the current yield generated by the trust investments; capital gains or losses realized by the fund accrue to the principal and may not be distributed to beneficiaries. Upon the death of the respective beneficiaries under each individual trust, the principal becomes available to the University for the purposes described in each individual trust conveyance. In most trusts, the principal will become available for operating support.

F. Annuity Trusts are individual trusts executed with donors which provide for annual payments to trust beneficiaries determined at the time of initiation of the trust. The amount of the payment is fixed; and to the extent that current yield is not sufficient, the principal must be expended in payment of the annual required annuity. Upon the death of the respective beneficiaries under each individual trust, the principal becomes available to the University for the purposes

described in each individual trust conveyance. In most trusts, the principal will become available for operating support.

G. Unitrusts are individual trusts executed with donors which provide for annual payments to trust beneficiaries equal to a stated percentage of the market value of the trust determined annually. To the extent that current yield is not sufficient to pay the unitrust amount, the principal is expended in payment of the annual required unitrust amount. Upon the death of the respective beneficiaries under each individual trust, the principal becomes available to the University for the purposes described in each individual trust conveyance. In most trusts, the principal will become available for operating support.

Investment Policies

The Common Fund

THE COMMON FUND

INVESTMENT PURPOSES, OBJECTIVES, AND POLICIES

The Common Fund Corporation is a cooperative undertaking of educational institutions designed to improve the productivity of endowments and other invested funds. In 1971, The Common Fund Corporation established a pooled equity fund for the investment of endowment assets and other long-term investment funds. In 1974, a second fund--the Common Fund for Short Term Investments--was created. This fund was designed as a convenient investment vehicle for operating funds, plant funds, and the cash equivalent component of endowment funds. A pooled investment fund for long-term bonds was established in August 1976 to provide for the management of that portion of a member institution's endowment it wishes to have invested in long-term fixed-income securities.

It is the responsibility of the Trustees of The Common Fund Corporation to manage prudently all funds which member institutions entrust to their care. This statement of purposes, objectives, and policies applies to the original long-term equity fund.

PURPOSES

1. To enable colleges, universities, and independent schools to join together in obtaining professional management for the investment of their assets.

2. To provide an attractive investment opportunity for colleges, universities, and independent schools for endowment funds which have permanent life or other funds which can be invested for a long period of time.

3. To seek the preservation of and the enhancement of the purchasing power of invested funds.

OBJECTIVES

1. To achieve superior long-term total return, primarily through equity investments. From time to time investments may be made in short-term, fixed income, cash equivalent issues. Ordinarily, the latter would be done through the Common Fund for Short Term Investments.

2. To provide over a complete market cycle a total return of 5-6 percent in terms of real purchasing power. In nominal terms, the total return would be 5-6 percent plus the rate of inflation. Achievement of this objective would permit, even with inflation, a stable expenditure level.

3. To aim for a portfolio volatility ranging between 0.9 and 1.2 beta, in the belief that the level of volatility should relate to the market outlook and to the level of risk considered prudent for this fund.

POLICIES

1. The management philosophy to be followed should be disciplined and consistent. It should accommodate to all those events and occurrences considered reasonable and probable. Extreme positions and opportunistic styles are not applicable to the philosophy of The Common Fund, which is to invest funds at a prudent level of risk.

2. Policies applying to equity investments:

a) Industry and company investments shall be based upon demonstrable analysis of prospects for above-average return over a three- to

five-year period. Emphasis should be placed on growth of earnings. Portfolio turnover will be carefully monitored.

b) Investments shall be made in well-seasoned, quality companies with securities which have sufficient market capitalization to enjoy good marketability. No more than 5% (at time of investment) of the net assets of the Fund shall be invested in securities of issuers having a record of less than three years' operations.

c) Concentration in any single industry and in any company shall not exceed 15 percent and 5 percent respectively of the market value of the Fund at the time of investment.

3. The investment portfolio should be diversified as to equity holdings. The purpose of this diversification is to provide reasonable assurances that no single security or class of securities will have a disproportionate impact on the total portfolio. Diversification will also be achieved by using two or more professional managers whose styles and investment strategies are sufficiently distinctive to justify their employment.

4. The Investment Committee of the Board of Trustees of The Common Fund shall allocate funds to individual managers and, from time to time, shall withdraw funds from individual managers for investment in the Common Fund for Short Term Investments or for assignment to other managers.

5. Each manager's performance record shall be compared with that of the other Common Fund managers. Comparisons of performance shall be made regularly with equity market indices, with mutual fund performances, with other funds managed by The Common Fund managers, and with other pooled fund managers. The individual transactions of the managers shall be monitored on a continuing basis. The Investment Committee shall meet each manager at least once each quarter to review performance, market outlook, economic outlook, and other pertinent matters.

6. From time to time, the Trustees may exclude from investment the equities of certain corporations or industries because of concerns over social responsibility issues.

7. Quarterly and annual reports shall be made in writing to all members of The Common Fund. In addition, by letter or memorandum, special reports shall be made to keep member institutions fully informed of Common Fund activities and investment results.

Investment Policies

Kalamazoo College

November 25, 1975

KALAMAZOO COLLEGE

INVESTMENT GOALS, OBJECTIVES AND POLICIES

COMMON INVESTMENT FUND

The Trustees of Kalamazoo College are aware of the responsibility which is theirs to manage prudently endowment funds which are given to the College. It is assumed that endowment funds will have permanent life and that investment policies will be followed which will protect the principal of the funds and produce maximum total return without assuming irrational risks.

GOALS

1. To provide spendable endowment income levels which are reasonably stable and sufficient to meet the budget requirements as delineated in the five-year revenue estimates of the College.

2. To maintain a spending rule (payment rate) that protects the real value of endowment principal.

3. To maintain a proper balance between the preservation and the enhancement of the purchasing power of endowment principal.

OBJECTIVES

1. To produce sufficient income* to provide at least 5 percent of the three-year, time weighted, moving average of

*Income is defined as dividends, interest, rents, the sale of covered call options, the lending of securities and business related revenues from investment.

market value of the endowment.

2. To provide an increase in spendable endowment income of at least 6.5 percent per year.

3. To maintain a portfolio volatility level of approximately .9 beta.

4. To provide a total return of 5-6 percent in real, current dollar terms; therefore, in nominal terms a return of 11.5-12.5 percent. (Inflation 6.5, budget 5.0, growth of principal 1.0).

POLICIES

1. Any income in excess of the established spending rate (the budgeted amount) shall be reinvested.

2. To the extent that the current year's income is insufficient to meet the established spending rate (the budgeted amount), reinvested prior years' income from these sources may be used.

3. Market appreciation in the portfolio, realized or unrealized, may be used annually for current expenditure needs up to 1 percent of the three-year, time weighted, moving average of market value of the endowment.

4. The management philosophy to be followed should be disciplined and consistent. It should accommodate to all those events and occurrences considered reasonable and probable.

Extreme positions and opportunistic styles do not fit the College's philosophy. The investment portfolio shall be diversified both as to fixed income and equity holdings. The purpose of this diversification is to provide reasonable assurance that no single security (investment) or class of securities (investments) will have a disproportionate impact on the total portfolio.

5. The fixed income component of the portfolio shall not be less than 35 percent nor more than 65 percent of the current market value.

6. The equity component of the portfolio shall not be less than 35 percent nor more than 65 percent of the current market value. For this purpose real estate (excluding contracts and secured loans) special situations, venture capital and convertible securities will be considered as equity investments.

7. Policies applying to fixed income securities:

   (A) Investments shall be limited to Federal Government and agency issues and to corporate issues having credit ratings of A to AAA.

   (B) The fixed income portfolio shall be diversified between different sectors (governments, agencies, corporates) and different issues within each sector with no one issue comprising more than 8 percent of the aggregate fixed income portfolio.

(C) A minimum of $50,000,000 outstanding in each debt issue and call protection emphasized to assure stable, current income and marketability.

8. Policies applying to equity investments (common stocks):

(A) Industry and company investments shall be based upon demonstrable analysis of prospects for above average return over a three to five-year period.

(B) Investment shall be made primarily in well-seasoned quality companies whose securities enjoy marketability adequate for this portfolio.

(C) Concentration in any single industry shall not exceed 20 percent of the equity portfolio.

Investment Policies

Stanford University

STANFORD UNIVERSITY

* * *

Statement of Investment Goals, Objectives and Policies

* * *

Merged Endowment Pool A: This pool contains all funds that do not come under the "appropriation of appreciation" provisions of the Uniform Management of Institutional Funds Act, including some early life income funds.

At December 31, 1975, Merged A had a market value slightly in excess of $74 million.

Merged Endowment Pool B: This pool contains all funds that come under the "appropriation of appreciation" provisions of the Uniform Act.

At December 31, 1975, Merged B had a market value slightly in excess of $220 million.

Attached are the policy statements as adopted by the Stanford Board of Trustees.

Merged Pool A - Page 2.50 to 2.53
Merged Pool B - Pages 2.60 to 2.63

STANFORD UNIVERSITY

* * *

Statement of Investment Goals, Objectives and Policies

* * *

Merged Endowment Pool A

GOALS AND OBJECTIVES

I. Provide spendable endowment income which is reasonably stable and predictable from year to year.

   A. An average appropriation which does not exceed 5% of a moving average of market value.

   B. Spending to be comprised of income derived from dividends, interest and rents.

II. Follow a spending rule (payout rate) that maintains the purchasing power of endowment income and protects the real value of endowment principal.

   A. An increase in the spending appropriation that over time equals the average institutional inflation rate, to offset the impact of inflation on Stanford's Operating Budget.

   B. An expected real total return of between 5% to 7% and a nominal return that reflects inflationary expectations. This currently suggests a nominal expected return of between 11% and 13% over the 3 to 5 years. In addition to this investment objective, we look for additions to endowment through capital gifts of between 2% and 2½% a year.

February 9, 1976
2.50

POLICIES

SPENDING RULE:

1. Any income from dividends, interest and rents in excess of the appropriation shall be reinvested.

2. To the extent that the current year's income from dividends, interest and rents is insufficient to meet the budgeted spending rate, reinvested prior years' income from these sources may be drawn upon.

INVESTMENT PHILOSOPHY:

3. The investment objectives call for a disciplined, consistent management philosophy that accommodates the occurrence of all those events which might be considered reasonable and probable. They do not call for a philosophy which represents extreme positions or opportunistic styles.

4. The investment portfolio shall be diversified both as to fixed income and equity holdings. The purpose of diversification is to provide reasonable assurance that no single security (investment) or class of securities (investments) will have a disproportionate or significant impact on the total portfolio.

5. The purpose of fixed income investments is to provide a highly predictable and dependable source of income, to reduce the variability of the total portfolio market value and, when applicable, to provide a source of funds for alternative investments.

6. The purpose of equity investments is to provide current income, growth of income and appreciation of principal with the recognition that this requires the assumption of greater market variability and risk of loss.

PORTFOLIO COMPOSITION AND RISK:

7. Maintain a total portfolio Beta of no more than 0.7.*

8. The fixed income component of the portfolio shall be not less than 40% nor more than 50% of the current market value.

9. The equity component of the portfolio shall be not less than 50% nor more than 60% of the current market value. For this purpose, real estate (excluding secured loans), special situations, venture capital and convertible securities will be considered as equity investments.

*A Beta of 0.7 means that fluctuations in the value of the portfolio should only be 70% of those of the Standard & Poor's 500 Stock Index.

February 9, 1976
2.51

10. The allocation of assets (within the permissible limits) between fixed income securities and equities shall be based primarily on relative attractiveness of the investment/economic outlook over a three to five year period.

11. POLICIES REGARDING FIXED INCOME SECURITIES:

a) Investments shall be limited to government and agency issues and corporate issues in the top four quality ratings of recognized credit services. The prospect of credit risk or permanent risk of loss shall be avoided.

b) The minimum number of individual fixed income securities held should be at least 25. The portfolio shall be diversified between different sectors (governments, agencies and corporates).

c) No more than 15% of the fixed income portfolio should be in any one industry. The securities of any one corporate issuer, except for AT & T and its subsidiaries, should be limited to 5% of the portfolio and to 5% of the specific outstanding issue. The limit for AT & T and its subsidiaries should be 10% of the portfolio.

d) Issues rated Baa or the equivalent should be limited in total to 20% of the portfolio.

e) Call protection should be emphasized to assure stable and current income.

f) Investment in medium and long-term maturities shall be made primarily to provide stability of current and future income. Shorter term maturities shall be held primarily as a buying reserve, also providing principal stability and liquidity. All debt securities should evidence ready marketability, with 90% of the securities of issues with $50 million or more of face amount outstanding.

g) An overall fixed income portfolio Beta of 0.25 to 0.30.

12. POLICIES REGARDING EQUITY INVESTMENTS - COMMON STOCKS:

a) Industry and company investment shall be based upon demonstratable analysis of prospects for above average return over a three to five year period. Emphasis should be placed upon growth of earnings and dividend payout.

b) Investment shall be made primarily in well-seasoned, quality companies whose securities enjoy marketability adequate for this portfolio. Quality is not synonymous with size or recognition.

c) The minimum number of individual securities held should range between 50 to 60. Equity securities in any single industry shall not exceed 20% of the equity portfolio value; the equity securities of any single company shall not exceed 5% (at cost) or 10% (of market) of the equity portfolio and the ten largest holdings shall not exceed 33% of the aggregate equity portfolio.

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d) Annual turnover of the common stock portfolio should not exceed a range of 20% - 25%. Any strategies which would result in a higher turnover rate should be reviewed with the Committee on Investments prior to implementation.

e) At the minimum equity commitment (50%) the equity portfolio Beta should not exceed 1.20; and at the maximum equity commitment (60%), it should not exceed 1.05.

13. POLICIES REGARDING EQUITY INVESTMENTS - OTHER THAN COMMON STOCKS:

a) Real estate investments may range between 0% to 15% of the aggregate portfolio. Emphasis should be placed upon investments producing a high current return coupled with residual land and/or improvement values. Such investments require the prior approval of the Investment Committee.

b) Convertible securities represent an appropriate medium for the equity portfolio when they appear to offer a better risk/return ratio than other equities. Policies regarding these securities are essentially the same as those for common stocks.

c) Foreign securities are appropriate, particularly as a form of diversification. Any aggregate commitments in excess of 5% of the total equity portfolio must be reviewed with the Investment Committee prior to action.

14. The accounting treatment of realized gains or losses should not affect investment decisions.

15. As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. When specific commissions are designated for payment of services rendered to the University, these transactions are an exception to the general rule.

16. All of the foregoing goals, objectives and policies shall be monitored by the Committee on Investments and reviewed annually by the Board of Trustees.

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STANFORD UNIVERSITY

* * *

Statement of Investment Goals, Objectives and Policies

* * *

Merged Endowment Pool B

GOALS AND OBJECTIVES

I. Provide spendable endowment income which is reasonably stable and predictable from year to year.

   A. An average appropriation which does not exceed 5% of a moving average of market value.

II. Follow a spending rule (payout rate) that maintains the purchasing power of endowment income and protects the real value of endowment principal.

   A. An increase in the spending appropriation that over time equals the average institutional inflation rate, to offset the impact of inflation on Stanford's Operating Budget.

   B. An expected real total return of between 5% to 7% and a nominal return that reflects inflationary expectations. This currently suggests a nominal expected return of between 11% and 13% over the next 3 to 5 years. In addition to this investment objective, we look for additions to endowment through capital gifts of between 2% and 2½% a year.

III. Make short-run investment management independent of University spending decisions.

   A. Spending to be comprised primarily of income derived from dividends, interest and rents, with income from these sources equivalent to at least 4% of a moving average of market value.

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POLICIES

SPENDING RULE:

1. Any income from dividends, interest, rents and capital appreciation in excess of the appropriation shall be reinvested.

2. To the extent that the current year's income from dividends, interest and rents is insufficient to meet the budgeted spending rate, reinvested prior years' income from these sources may be drawn upon.

3. To the extent that current and reinvested prior years' income from dividends, interest and rents is insufficient to meet the budgeted spending rate, capital appreciation up to 1% of the average market value may be drawn upon to supplement earned income.

INVESTMENT PHILOSOPHY:

4. The investment objectives call for a disciplined, consistent management philosophy that accommodates the occurrence of all those events which might be considered reasonable and probable. They do not call for a philosophy which represents extreme positions or opportunistic styles.

5. The investment portfolio shall be diversified both as to fixed income and equity holdings. The purpose of diversification is to provide reasonable assurance that no single security (investment) or class of securities (investments) will have a disproportionate or significant impact on the total portfolio.

6. The purpose of fixed income investments is to provide a highly predictable and dependable source of income, to reduce the variability of the total portfolio market value and, when applicable, to provide a source of funds for alternative investments.

7. The purpose of equity investments is to provide current income, growth of income and appreciation of principal with the recognition that this requires the assumption of greater market variability and risk of loss.

PORTFOLIO COMPOSITION AND RISK:

8. Maintain a total portfolio Beta of no more than 0.7.*

9. The fixed income component of the portfolio shall be not less than 30% nor more than 50% of the current market value.

*A Beta of 0.7 means that fluctuations in the value of the portfolio should only be 70% of those of the Standard & Poor's 500 Stock Index.

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10. The equity component of the portfolio shall be not less than 50% nor more than 70% of the current market value. For this purpose, real estate (excluding secured loans), special situations, venture capital and convertible securities will be considered as equity investments.

11. The allocation of assets (within the permissible limits) between fixed income securities and equities shall be based primarily on relative attractiveness and the investment/economic outlook over a three to five year period.

12. POLICIES REGARDING FIXED INCOME SECURITIES:

a) Investments shall be limited to government and agency issues and corporate issues in the top four quality ratings of recognized credit services. The prospect of credit risk or permanent risk of loss shall be avoided.

b) The minimum number of individual fixed income securities held should be at least 40. The portfolio shall be diversified between different sectors (governments, agencies and corporates).

c) No more than 15% of the fixed income portfolio should be in any one industry. The securities of any one corporate issuer, except for AT & T and its subsidiaries, should be limited to 5% of the portfolio and to 5% of the specific outstanding issue. The limit for AT & T and its subsidiaries should be 10% of the portfolio.

d) Issues rated Baa or the equivalent should be limited in total to 20% of the portfolio.

e) Call protection should be emphasized to assure stable and current income.

f) Investment in medium and long-term maturities shall be made primarily to provide stability of current and future income. Shorter term maturities shall be held primarily as a buying reserve, also providing principal stability and liquidity. All debt securities should evidence ready marketability, with 90% of the securities of issues with $50 million or more of face amount outstanding.

g) An overall fixed income portfolio Beta of 0.25 to 0.30.

13. POLICIES REGARDING EQUITY INVESTMENTS - COMMON STOCKS:

a) Industry and company investment shall be based upon demonstratable analysis of prospects for above average return over a three to five year period. Emphasis should be placed upon growth of earnings and dividend payout.

b) Investment shall be made primarily in well-seasoned, quality companies whose securities enjoy marketability adequate for this portfolio. Quality is not synonymous with size or recognition.

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c) The minimum number of individual securities held should range between 50 and 60. Equity securities in any single industry shall not exceed 20% of the equity portfolio value; the equity securities of any single company shall not exceed 5% (at cost) or 10% (of market) of the equity portfolio and the ten largest holdings shall not exceed 33% of the aggregate equity portfolio.

d) Annual turnover of the common stock portfolio should not exceed a range of 20% - 25%. Any strategies which would result in a higher turnover rate should be reviewed with the Committee on Investments prior to implementation.

e) At the minimum equity commitment (50%) the equity portfolio Beta should not exceed 1.20; at 60% it should not exceed 1.05; and at the maximum equity commitment (70%), it should not exceed 0.90.

14. POLICIES REGARDING EQUITY INVESTMENTS - OTHER THAN COMMON STOCKS:

a) Real estate investments may range between 0% to 15% of the aggregate portfolio. Emphasis should be placed upon investments producing a high current return coupled with residual land and/or improvement values. Such investments require the prior approval of the Investment Committee.

b) Non-marketable securities of the special situation/venture capital type may range from 0% to 5% of the aggregate portfolio. (See separate document for existing policies relative to this class of security.)

c) Convertible securities represent an appropriate medium for the equity portfolio when they appear to offer a better risk/return ratio than other equities. Policies regarding these securities are essentially the same as those for common stocks.

d) Foreign securities are appropriate, particularly as a form of diversification. Any aggregate commitments in excess of 5% of the total equity portfolio must be reviewed with the Investment Committee prior to action.

15. The accounting treatment of realized gains or losses should not affect investment decisions.

16. As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best realized price. When specific commissions are designated for payment of services rendered to the University, these transactions are an exception to the general rule.

17. All of the foregoing goals, objectives and policies shall be monitored by the Committee on Investments and reviewed annually by the Board of Trustees.

February 9, 1976
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Investment Policies

Tufts University

INVESTMENT MANAGEMENT OBJECTIVES AND POLICIES

Objectives

I. Provide a reasonably stable and growing endowment income which is predictable from year to year.

   a. Provide annual gross earned income of $_____, as a minimum.

   b. Only income yield from interest and dividends will be used for computing the payout rates to be expressed in ¢/unit for the Pooled Funds Assets, and in dollars from separately invested funds.

II. Assumptions are:

   - Addition to endowment through capital gifts and bequests of 2 1/2% per year.

   - Yield plus appreciation on endowment of between 4% to 6% over the years, in constant dollars.

   - Anticipated University inflation rate of 6+% per year.

POLICIES

SPENDING RULE:

1. Payout will be limited to income earned (yield). To the extent that the current year's income from interest, dividends, and rent is insufficient to meet the budgeted spending rate, reinvested prior year's income from these sources (Yield Reserve) will be a source. Conversely, any income from interest, dividends, and rents in excess of the appropriation shall be reinvested in the Yield Reserve or in unexpended income balances for the separately invested funds.

INVESTMENT PHILOSOPHY:

2. The investment objectives call for a disciplined, consistent management philosophy that accommodates the occurrence of all those events which might be considered reasonable and probable. They do not call for a philosophy which represents extreme positions or opportunistic styles.

3. The investment portfolio shall be diversified both as to fixed income and equity holdings. The purpose of diversification is to provide reasonable assurance that no single security (investment) or class of securities (investments) will have a disproportionate or significant impact on the total portfolio.

4. The purpose of fixed income investments is to provide a highly predictable and dependable source of income, to reduce the volatility of the total portfolio market value and, when appropriate, to provide a source of funds for alternative investments.

5. The purpos of equity investments is to provide current income, growth of income and appreciation of principal with the recognition that this requires the assumption of greater market volatility and risk of loss.

PORTFOLIO COMPOSITION AND RISK:

6. Regulate the portfolio volatility in relation to the S & P 500 and to an appropriate bond index.

7. The general range of the fixed income component of the portfolio will be 20% to 50% of the current market value.

8. The general range of the equity component of the portfolio will be 50% to 80% of the current market value. For this purpose, real estate (excluding institutional real estate and secured loans), special situations, venture capital and convertible securities will be considered as equity investments.

9. The allocation of assets (within the permissible limits) between fixed income securities and equities shall be based primarily on relative attractiveness of the investment/economic outlook over a one to three year period.

10. POLICIES REGARDING FIXED INCOME SECURITIES:

a) Investments shall be limited to government and agency issues and corporate issues in the top three quality ratings of recognized credit services. Bonds which are not rated, but which in the opinion of the Investment Committee are of at least comparable quality to the three highest grades, may be purchased.

b) The minimum number of individual fixed income securities held should be at least 20. The portfolio shall be diversified between different sectors.

c) No more than 25% of the fixed income portfolio should be in any one industry. The securities of any one corporate issues should be limited to 10% of the total bond portfolio and to 5% of the individual issue.

d) Call protection should be emphasized to assure stable income and lessen the risk of reinvesting at lower rates.

e) Investment in medium and long-term maturities shall be made primarily to provide stability of current and future income. Shorter term maturities shall be held primarily as a buying reserve. All debt securities should be readily marketable.

11. SHORT TERM INVESTMENTS:

a) Cash will be continuously invested until needed.

b) No single instrument, except a U. S. obligation, not in excess of $1,500,000, and further limitations may be made by the Investment Committee.

c) Offshore instruments are permissible within the context of the Investment Committee's economic expectations, provided that the foreign exchange risk is hedged.

12. POLICIES REGARDING EQUITY INVESTMENTS - COMMON STOCKS:

a) Industry and company investment shall be based upon demonstrable analysis of prospects for above average return over a three to five year period. Emphasis should be placed upon balance sheet quality, growth of earnings, cash flows and dividend payout. Earnings per share shall have a 5 year annualized growth rate of 10+% and a return on equity of 15%. Balance sheet should show an excellent current position with substantial cash equivalents; debt service coverage and debt to total capital ratio should be at acceptable levels.

These criteria apply specifically to companies other than utilities, banks and financial type industries.

b) Investment shall be primarily in well-seasoned, quality companies whose securities enjoy marketability adequate for this portfolio. Quality is not synonymous with size or recognition.

c) Equity securities in any single industry shall not exceed 20% of the equity portfolio value; the equity securities of any single company shall not exceed 5% (at cost) or 10% (of market) of the equity portfolio and the ten largest holdings shall not exceed 50% of the aggregate equity portfolio.

13. POLICIES REGARDING EQUITY INVESTMENTS - OTHER THAN COMMON STOCKS:

a) Convertible securities represent an appropriate medium for the equity portfolio when they offer a better risk/return ratio than the equity in the same company. Policies regarding these securities are essentially the same as those for common stocks.

b) Canadian and other foreign securities are appropriate, as a form of diversification.

14. With no tax problem selling securities at a gain or loss is not a consideration in investment decisions.

15. As a general guideline that should apply to all assets managed, transactions should be entered into on the basis of best execution, which is interpreted normally to mean best net price. In some cases, commissions are used in payment of research and other services rendered to the University but these cases are infrequent.

16. All of the foregoing goals, objectives and policies shall be monitored by the Investment Committee and shall be reviewed by the Finance Committee.

Investment Policies

The College of Wooster

ENDOWMENT INVESTMENT POLICY

The Committee on Finance recognizes the endowment funds as an increasingly important source of revenue for the current operating expenses and, when necessary, for the capital expenditures of The College of Wooster. The continuing trend of financial needs suggests to the Committee that the proper endowment investment objective should be to maximize the total return (appreciation and income) of funds designated as Total Return Portfolios within the portfolio guidelines defined by the Finance Committee, assuming a prudent and reasonable risk level. A goal of above-average investment performance is called for, based upon a comparison of projected financial trends with traditional expectations of investment returns, as follows:

Costs. Operating costs of the College are expected to increase annually. Any moderation in the rise of instructional expense could be offset by higher debt service payments and expanding student aid costs.

Inflation. U.S. consumer price inflation could approximate a 6-7% rate in coming years and a commensurate inflation, at least, may be projected for the College's operating costs, given their large component of salaries and services.

Revenues. Competitive pressures between private liberal-arts colleges and state-supported universities may limit future increases in tuition fees by the private colleges. A slowing trend in this major source of revenue at Wooster could coincide with rising fixed costs, requiring greater endowment fund productivity as a compensating source of revenue. Ideally, then, growth in endowment total return should not only cover rising costs and inflation, but should continually expand the base of invested assets.

The sum of the foregoing demands is the seeming requirement for 10-15% annual growth in total return of the consolidated endowment funds. The historic performance of common stocks in the U.S. in recent decades has been an average compounded total return of 9-10% per year. The long-term return from fixed-income securities has been at a lesser rate, though bonds have occasionally out-performed common stocks for limited periods.

The Committee acknowledges the difficult, perhaps even impossible, task of attaining consistently above-average returns from diversified portfolios, even if the historic trends of capital markets continue into future years. Nevertheless, the challenge of excellent performance seems likely to produce higher returns than results under a lesser stated goal.

Intensive full-time management of the investments will be required. Increased market volatility in the portfolios will be accepted in the interest of greater long-term growth. Accordingly, the Committee on Finance affirms its policy for the endowment funds of seeking maximum long-term total return, combining appreciation and income, within the Guidelines of the Finance Committee, and in line with prudent and reasonable levels of investment risk.

The Committee recognizes the College's responsibility as a minority stockholder to encourage corporate citizenship, as well as corporate growth, in the companies whose shares it owns. Thus, continuing performance of social responsibilities by corporate managements should be encouraged in proxy votes or by other appropriate actions based upon information available to the Investment Committee.

INVESTMENT POLICY GUIDELINES

To implement its long-term investment policy, the Committee on Finance recommends the following guidelines to the Investment Committee and its investment manager for the management of the total-return and income portfolios:

a. A minimum of 60% of aggregate market value of combined portfolios invested for total return will be maintained in equity investments, selected for appreciation potential and income growth or current yield.

b. A minimum of 15% of aggregate market value of combined portfolios invested for total return will be maintained in fixed income securities, mostly high-quality debt issues selected from a range of scheduled maturities.

c. Approximately 25% of aggregate market value of combined portfolios invested for total return may be apportioned at discretion, maintained wholly in either equities, fixed-income securities, or cash equivalent, or in any combination of these. Portfolios invested for income will be apportioned at discretion among equities, fixed-income securities or cash equivalent to effect high current yield, with emphasis upon high-quality debt issues selected from a range of scheduled maturities.

d. Equity investments in any one industry in total return portfolios shall be limited to 15% of aggregate market value of equities in those combined portfolios.

e. Investments in securities of any one issuer in total-return portfolios shall not at any time of investment exceed 5% of aggregate market value of those combined portfolios.

f. No equity investment of any one issuer, in the aggregate amount held in total return and income portfolios, shall exceed 5% of the outstanding equity securities of the issuer.

g. Proxies solicited by corporations owned in the portfolios shall be voted by the Investment Committee after due consideration of the merits of each issue presented, with the right reserved, nevertheless, to abstain on specific issues within a ballot. Responsible corporate citizenship will be a guiding principle on issues involving a company's social performance.

h. The Investment Committee shall have full discretion and authority between meetings of the Finance Committee to change the percentages under a, b, and c, above.

The College of Wooster
Revised July 14, 1976

Deferred Giving Policies

Berea College

Policies
and
Guidelines for Deferred Giving
Agreements
March 22, 1977

Gift Annuities

Minimum agreement amount -- $1,000
Annual rate of return to donor determined by rate schedule approved by the Committee on Gift Annuities.
Minimum age for agreements -- 60 years
Agreements limited to cover two lives (one survivorship)
Payments to donor can be quarterly, semiannually or annually.
Matured annuities are transferred to endowment funds.
Cash or securities are accepted for funding.
Real estate used for funding gift annuities must have a minimal value of $50,000 and two appraisals secured -- one representing the donor and one representing Berea College
Board of Trustees' Action -- April 28, 1972

Pooled Income Funds

Minimum agreement amount -- $1,000
Annual rate of return to donor determined by annual earnings of fund less investment charge prorated on a per-share basis. Rate of return can fluctuate from year to year.
No minimum age for agreements
Agreements limited to cover two lives (one survivorship)
Payments to donor are quarterly.
Matured agreements are transferred to endowment funds.
Cash or securities are accepted for funding (except tax-exempt securities).
Board of Trustees' Action -- October 30, 1970

Unitrusts

Minimum agreement amount -- $50,000
Annual rate of return to donor determined by choice of donor. Cannot be less than 5 percent per year or more than 7 percent, if Berea College is to serve as trustee.
No minimum age for agreements
No limit on number of lives covered if the minimum gift value of 30 percent of initial principal for Berea College is met; with Berea College as trustee.
Payments to donors can be monthly, quarterly, semiannually or annually.
Matured unitrusts are transferred to endowment funds.
Cash or securities are accepted for funding.
Annual return is based on annual evaluation of assets and payment is fixed for the year at the agreed upon percentage of the annual evaluation.
Donors are encouraged to use their bank Trust Departments to handle unitrust gifts.
Board of Trustees' Action -- May 11, 1975

Annuity Trusts

Same as for unitrusts except the annual rate of return to the donor is the agreed upon percentage of the original principal and never changes.

Deferred Payment Gift Annuities (currently Berea College has none of these in force)

Minimum agreement amount -- $10,000
Annual rate of return would be the rate in effect at the time the agreement was written.
Minimum age -- 40 years
Maximum number of years Berea College would defer payments -- 25 years
Agreements would be written on no more than one (1) beneficiary.
The following rates for compounding interest rates recommended by the Committee on Gift Annuities:

1st 10 years -- 4 percent
2nd 10 years -- 3 1/2 percent
3rd 10 years -- 3 percent
After 30 years -- 2 1/2 percent

Board of Trustees' Action -- January 26, 1973
Amended -- October 25, 1974

Revocable Gift Agreements

Minimum agreement amount -- $1,000
Annual rate of return is presently 6 percent but can be adjusted on annual basis subject to a 45-day notice to the donor.
At the written request of the donor or surviving beneficiary, a revocable gift agreement can be terminated on 30 days' notice, or part of the funds so invested can be withdrawn.
Minimum age for participation -- 60 years
Agreements may be written on one or two lives, with right of survivorship.
On the death of the donor and surviving beneficiary, the agreement shall terminate and any portion of the gift amount not withdrawn and any accrued interest thereon shall be an absolute gift to, and become the property of, Berea College to be used for its general purposes.
Income will be paid to the donor quarterly.
Board of Trustees' Action -- April 24, 1975

Short-Term Trust

A trust established with the donor's bank or fiduciary agent to provide income to the College for not less than 10 years with the principal reverting to donor or donor's beneficiary. Income is not taxable to the donor; or

The trust can be made to benefit one or more relatives or friends for a period of not less than 10 years with the principal then passed on to Berea College.

Property Donated with Life Estate

An unencumbered residence or farm which is the principle domicile of the donor may be given to Berea College with the reservation of living on the property for life.

The state in which the property is located governs the administration of life estates. The usual provisions include the responsibility of the donor to pay the real estate taxes, property insurance, and to maintain the property in the condition at the time of transfer to Berea College. Upon the death of the donor, the property is available to the College to dispose of as the trustees see fit.

Deferred Giving Policies

Northwestern University

NORTHWESTERN UNIVERSITY
Board of Trustees

To: Committee on Development
Committee on Investments

May 8, 1973

From: Department of Development

Subject: Recommendation for Authorization of New Deferred Gifts Program Emphasizing Life Income Gifts, Including Creation of High Yield and Balanced Pooled Income Funds

The Tax Reform Act of 1969 made significant changes in the tax laws regarding several of the methods by which Northwestern has over the years obtained large amounts of gifts, and created three new kinds of entities:

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Charitable remainder annuity trust

Charitable remainder unitrust

"Pooled Income Fund" as defined in Section 642(c) of the Internal Revenue Code

The annuity trust and unitrust are variants on the traditional charitable remainder trust which has been important to Northwestern's development program in the past. However, the new statutory provisions governing these trusts impose such explicit restrictions that the old traditional form may no longer be used.

The Pooled Income Fund is in fact a completely new concept. Furthermore, the Tax Reform Act requires that such a fund must be created by the charitable institution which administers it prior to receipt of any gifts in this manner.

Because these changes in the law require Northwestern to adopt new methods of obtaining gifts, and because the University's funds are administered by the Investment Department, this joint meeting of the Committee on Development and the Committee on Investments has been called. The purposes are to request these two committees to recommend that the Board of Trustees (i) approve the revised Deferred Gifts Program discussed in the attached paper, and (ii) authorize the creation of two pooled income funds, one a high yield fund and the other a balanced fund.

Many other traditional methods of gift solicitation remain available to the University, and we propose to continue using all of them to the fullest possible extent. Many of these are also discussed briefly in the attached paper, but they require no Board action.

RECOMMENDATION

The Department of Development requests Committee recommendation of the adoption of the following resolutions by the Board of Trustees at its next meeting:

> Whereas: the Tax Reform Act of 1969 introduced a number of provisions into the Internal Revenue Code and changed others which significantly affect the Federal tax treatment of Northwestern's life income gift plans; and

Whereas: the life income gift plans offered as a part of Northwestern's Deferred Gifts Program should be revised to conform to the changes in the Federal tax laws made by the Tax Reform Act; and

Whereas: the Board of Trustees has determined that Northwestern's Deferred Gifts Program should include (i) the establishment of at least two pooled income funds, one emphasizing current income and the other emphasizing reasonable growth in the value of the fund's principal as well as current income (a balanced fund), and (ii) the promotion of life income gifts utilizing the pooled income funds, charitable remainder trusts and charitable annuities in accordance with guidelines approved from time to time by the Committee on Investments of the Board of Trustees.

THEREFORE BE IT RESOLVED, that the Board of Trustees hereby authorizes (i) the establishment of at least two pooled income funds, one emphasizing current income and the other emphasizing reasonable growth in the value of the fund's principal as well as current income, and such other fund or funds as the Committee on Investments deems advisable, subject to the approval of the governing documents by the Committee on Investments; and (ii) the promotion of life income gifts utilizing the pooled income funds, charitable remainder trusts and charitable annuities in accordance with guidelines approved from time to time by the Committee on Investments.

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BE IT FURTHER RESOLVED, that the following procedures shall govern the negotiation and execution of life income agreements:

1. The Vice President for Development and his staff shall be authorized to publicize Northwestern's life income programs and to negotiate an agreement with any prospective donor relating to Northwestern's pooled income funds, or any annuity trust or unitrust agreement under which Northwestern is to act as trustee, or under any charitable gift annuity agreement where the proposed transaction follows the form of, and the limitations applicable to, such transaction as shall have been approved from time to time by the Committee on Investments.

2. Prior to submission to any prospective donor of legal documents establishing a charitable remainder

annuity trust or unitrust, the Development Department shall submit to the Office of the University Attorney for its approval copies of the suggested documents and a memorandum setting forth the investment goals and other guidelines for the trust.

3. The Vice President for Development and his staff shall obtain written approval of the Vice President and Controller and the Director of the Investment Department before final negotiation of any agreement where the proposed transaction does not follow the form of, and the limitations applicable to, such transaction as shall have been approved by the Committee on Investments.

4. The Vice President for Development and his staff shall obtain prior written approval from the Director of the Investment Department before final negotiation of any agreement under which real estate or any interest in real estate or any property not having a readily ascertainable market value is transferred to Northwestern's pooled income funds, or to Northwestern, as trustee under any annuity trust or unitrust agreement, or in exchange for any charitable annuity.

5. The power to commit University resources shall remain with the authorized Officers of the University, to be exercised in accordance with established procedures.

BE IT FURTHER RESOLVED, that the following procedures shall govern the investment of the aforementioned funds:

1. The Director of the Investment Department and his staff, subject to the approval of the Investment Committee of the Board of Trustees, shall administer the investment of all funds received by the University in connection with any transfer to its pooled income funds or a charitable remainder annuity trust or unitrust where Northwestern serves as trustee, or in exchange for a charitable annuity.

2. In administering a charitable remainder trust, the tax consequences of investment decisions to the income beneficiaries shall be evaluated in addition to other investment considerations, since such decisions directly affect the taxation of distributions to the beneficiaries.

3. Northwestern's pooled income funds shall not invest in tax-exempt securities and ordinarily shall not realize short-term capital gains.

4. The University should absorb the administrative and other costs of managing all life income gifts as a fund-raising expense. (Northwestern has followed this practice in the past and has found that the donors' appreciation of the practice returns benefits to the University far in excess of the costs incurred.)

5. Management, investment and accounting of all life income gifts shall be done pursuant to University statutes.

Respectfully submitted,

John E. Fields
Vice President for Development

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Northwestern University
Deferred Gifts Program
Emphasizing Life Income Gifts

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May 8, 1973

I. Introduction

Northwestern competes with other charitable organizations in its efforts to obtain contributions from alumni and friends to support the University's activities. In the past, the University has been very successful in obtaining contributions, both in the area of gifts providing funds immediately available to the University and the area of gifts which, while legally effective immediately, do not make funds available for University purposes until a later time.

The Federal tax laws have frequently influenced Northwestern's fund-raising efforts, and changes made by the Tax Reform Act of 1969 (the Tax Reform Act) are likely to increase their influence. Thus, if the University is to continue its record of past success, Northwestern should modify its fund-raising programs in light of the changes in the tax laws to insure that prospective donors obtain the maximum Federal tax benefit from their gifts to the University.

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For many years, the Development Department has promoted Northwestern's Deferred Gifts Program as an integral part of the University's fund-raising activities, which also include the annual, capital and endowment programs. The Deferred Gifts Program complements Northwestern's other programs and enhances the University's overall gift solicitation program.

The single most important source of deferred gifts in past years has been the life income gift programs promoted by the

University, which now need to be revised. The key to a successful Deferred Gifts Program emphasizing life income gifts is to make available to all prospective donors a variety of life income plans, thereby enabling more donors to contribute.

Accordingly, the Development Department presents this paper to the Board of Trustees for (i) its approval of a Deferred Gifts Program emphasizing life income gifts and (ii) its action on the recommendation to establish two pooled income funds (which are defined in a later section).

A deferred gift includes a gift which an individual plans to make to Northwestern in the future such as a bequest under his will as well as a present transfer to Northwestern of property in which the individual either transfers an income or similar interest in the same property to another or retains such an interest for himself. In both cases, Northwestern's full possession and enjoyment of the property is postponed. However, in the former type of transfer, Northwestern's interest is generally contingent, in addition to being postponed, since an individual might change his will to eliminate the bequest to Northwestern. In the latter type of transfer, Northwestern's interest in the property generally is vested, even though its possession and enjoyment is postponed until the expiration of another beneficiary's interest in the property.

This paper is devoted to the latter type of deferred gift.

Prior to the Tax Reform Act, Northwestern received a substantial amount of support from its Deferred Gifts Program. Often,

such deferred gifts from donors took the form of transfers to a charitable remainder trust of which Northwestern was a beneficiary of a portion or all of the principal of the trust upon the death of the last or only income beneficiary. Donors and their legal and other advisors were familiar with the benefits -- both to the donor's family and Northwestern -- of a charitable remainder trust under prior law, and Northwestern actively promoted the creation of charitable remainder trusts and other types of life income gifts.

However, the Tax Reform Act made a number of significant changes in the Federal tax treatment of life income gifts utilizing charitable remainder trusts. Changes made by the Tax Reform Act in the tax treatment of these life income transfers necessitate a revision of Northwestern's gift solicitation program, especially its Deferred Gifts Program for which Trustee approval is requested.

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The Federal tax treatment (including changes made by the Tax Reform Act) of outright gifts is discussed in the following section. Although the Tax Reform Act made a number of changes in the tax treatment of outright gifts, these changes, for the most part, would not appear to have a material effect on the University's fund raising efforts. No revision in the Development Department's outright gift solicitation program for which Trustee approval should be obtained is required by virtue of the Tax Reform Act.

The Trustees, however, should be aware that one of the changes made by the Tax Reform Act involves the phasing out of the so-called "unlimited deduction" for certain taxpayers, under which

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an individual who meets certain criteria is able to deduct charitable gifts for Federal income tax purposes in excess of the generally applicable percentage limitations. The elimination of this unlimited deduction is likely to result in the loss of substantial amounts of support from a few individuals. The loss of this support furnishes additional impetus for implementing the changes in Northwestern's Deferred Gifts Program.

> IMPORTANT: This is not a memorandum of law. The following discussion of charitable contributions to Northwestern and the Federal tax consequences of such contributions is presented to the Board of Trustees in support of the Development Department's recommendations on the University's Deferred Gifts Program. The discussion is not designed to furnish legal or other professional advice, and should not be interpreted or utilized as such. If legal, tax or other expert assistance is required, the services of a competent professional should be sought.

II. Federal Tax Treatment of Gifts to Northwestern

A brief review of the principal Federal tax rules generally applicable to gifts by an individual to a "public charity" such as Northwestern will provide a useful background for the discussion which follows. Unless the context indicates otherwise, a "gift" will include a transfer at death, as well as during life; a "donor" will include a decedent as well as a living donor; and a "donee" will include a person taking at the death of the donor, as well as during the donor's life.

1. Federal Income, Gift and Estate Tax Deduction

Prospective donors to Northwestern are generally unaware that a gift to the University may result in a donor incurring a Federal gift or estate tax on the gift. Ordinarily, a donor knows that he is entitled to a charitable deduction for Federal income tax purposes when he makes a gift to Northwestern during his lifetime, but he is not sufficiently familiar with the gift tax laws to know that they also apply to his gift. Similarly, although many prospective donors are aware of the Federal estate tax, most don't realize that a testamentary gift to Northwestern may be subject to Federal estate tax. The Tax Reform Act significantly increased the scope of gifts to Northwestern which may be subject to Federal gift or estate tax while, at the same time, it decreased a donor's charitable deduction for Federal income tax purposes for certain types of gifts.

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Under present law, an individual's gift to Northwestern of the entire interest in property entitles the donor to a charitable deduction for Federal income tax purposes subject to the limitations discussed below. In addition, such a gift is deductible for purposes of, and therefore is not subject to, either the Federal gift tax or estate tax.

The same rules apply to a gift of a partial interest (which comprises the donor's entire interest) in property, regardless of the nature of the partial interest, except where the donor has divided the property so as to circumvent the statute for Federal income tax purposes or, for Federal gift and estate tax purposes, has transferred to a non-charitable donee an interest in the property not sanctioned by the Tax Reform Act.

However, an individual's gift to Northwestern of a partial interest (which does not comprise his entire interest) in property, or which comprises his entire interest under one of the exceptions noted in the preceding paragraph, does not entitle the donor to a charitable deduction for Federal income tax purposes and, in addition, will be subject to Federal gift tax or estate tax unless the transaction takes one of the forms discussed in the section on life income and other split-interest transfers below. Thus, an unwary donor of a gift of a partial interest in property to Northwestern may not only lose a charitable deduction for Federal income tax purposes, he may also incur a Federal gift tax or estate tax unless the transfer meets the tests established by the Tax Reform Act.

With the exception of a gift to Northwestern of less than an individual's entire interest in property (which will be discussed in the section on life income and other split-interest transfers), the Tax Reform Act made no substantial changes in the rules governing the charitable deduction allowed an individual donor of a gift to Northwestern for Federal gift and estate tax purposes. Thus, a donor is still entitled to deduct the fair market value of a gift to Northwestern without limitation, and the gift is not subject to either the Federal gift tax or estate tax.

2. Limitations on Federal Income Tax Deduction

The Tax Reform Act made substantial changes in the rules governing the charitable deduction allowed an individual donor of a gift to Northwestern for Federal income tax purposes. The rules governing an individual donor's Federal income tax deduction for a gift to Northwestern of less than his entire interest in property will be discussed in the section on life income and other split-interest transfers. The following is a summary of the rules which apply to all gifts of an individual donor to Northwestern.

An individual is now entitled to deduct a gift of cash to Northwestern to the extent that the aggregate of his contributions to all public charities does not exceed fifty percent of his contribution base (generally his adjusted gross income); formerly, the limitation was thirty percent. The value of the donor's gift and therefore the amount of his deduction is the amount of the cash given to Northwestern.

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If a gift of cash is not made "to", but is only made "for the use of", Northwestern (such as a gift to be held in trust by an institution other than Northwestern), the individual's charitable deduction for the gift is limited to twenty percent of his contribution base and is subject to further reduction if the individual has made certain other gifts during the year or has any carryover of prior years' contributions. Moreover, an individual's gifts "for the use of" Northwestern in excess of the amount deductible after applying the foregoing limitations cannot be carried over to any later year.

A gift of property other than cash to Northwestern is subject to the same percentage limitations described in the preceding paragraphs. In addition, the amount of the gift and the individual's Federal income tax deduction for a gift of property other than cash to Northwestern must be reduced in the following cases.

First, if an individual contributes to Northwestern property which if it had been sold by him at its fair market value would have resulted in ordinary income, including short-term capital gain (such as securities not held more than six months), he must reduce the amount of his charitable deduction by an amount equal to such ordinary income. Second, if an individual contributes tangible personal property (such as furniture or a work of art) to Northwestern for a use which is unrelated to its exempt function, he must reduce the amount of his charitable deduction by one-half of the amount which would have been long-term capital gain had the property been sold by the donor at its fair market value. (No reduction in the

amount of the donor's charitable deduction for one-half of the long-term capital gain is required if (1) the tangible personal property is not in fact put to a use unrelated to Northwestern's exempt function, or (2) it is reasonable to anticipate that the property will not be put to an unrelated use by Northwestern.) In any case where a sale of the property by the donor at its fair market value would have resulted in both ordinary income and long-term capital gain, the donor is required to reduce his charitable deduction by the sum of the ordinary income and one-half of the long term capital gain.

An individual is not allowed any Federal income tax deduction for a gift to Northwestern of a future interest in tangible personal property until all intervening interests in the property and all rights to the actual possession or enjoyment of the property have expired or are held by persons not related to the donor. Moreover, the individual's deduction at that time is still subject to the limitations otherwise applicable to gifts of tangible personal property.

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With the exception of the limitations on the amount of an individual's charitable deduction described above, an individual may deduct his contributions to Northwestern of such ordinary income or tangible personal property to the extent that the aggregate of his contributions to all public charities does not exceed fifty percent of his contribution base.

An individual's charitable deduction for a gift of appreciated long-term capital gain property (such as securities held more than six months) to Northwestern (other than tangible personal property for a use unrelated to its exempt function) is subject to a further limitation. An individual is entitled to a charitable deduction in an amount equal to the value of the appreciated long-term capital gain property given to Northwestern only to the extent that the aggregate of his contributions of such property to all public charities during the year does not exceed thirty percent of his contribution base. If the donor makes an optional "constructive sale" election on his income tax return, under which the amount of all his contributions of appreciated long-term capital gain property to public charities (including any carryover of such contributions) is reduced by one-half of the amount which would have been long-term capital gain had the property been sold by him at its fair market value, the percentage limitation on the aggregate of such contributions is fifty percent.

Under present law an individual generally will not incur any Federal capital gains tax on a gift of appreciated long-term capital gain property to Northwestern, even though he is entitled to a Federal income tax deduction, subject to the foregoing limitations, in an amount equal to the full value of the property. However, the Tax Reform Act did introduce an exception to this general rule where appreciated long-term capital gain property is transferred to Northwestern subject to an indebtedness or in a transaction involving a

"bargain sale" (or exchange) of property, including the purchase of a charitable annuity.

Under present law, if an individual transfers property to Northwestern subject to an indebtedness or in a "bargain sale" transaction and is entitled to a charitable deduction by reason of the transfer, he is required to allocate his basis for the property between the portion of the property treated as "contributed" and the portion treated as "sold" on the basis of their relative market values. Thus, a donor can no longer sell appreciated long-term capital gain property to Northwestern for his basis and (1) obtain a charitable deduction for the excess of the property's fair market value over the sale price, and (2) at the same time, avoid the payment of Federal income tax on the increase in value of the property.

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A transfer of ordinary income, including short-term capital gain, property to Northwestern subject to an indebtedness or in a "bargain sale" transaction where the amount realized by the donor is not equal to his basis for the property (whether the amount realized is more or less than his basis) will also result in taxable income to him. In addition, he will not receive any charitable deduction unless the amount realized is less than his basis.

The Federal tax rules applicable to transfers of property subject to an indebtedness or in a bargain sale are discussed at greater length in the section on life income and other split-interest transfers.

In any case where the amount of an individual's gifts made to (but not "for the use of") Northwestern and other public charities during the year exceeds the fifty percent limit on all contributions or the thirty percent limit on gifts of appreciated long-term capital gain property, the excess may be carried over and claimed as a charitable deduction, subject to certain limitations, by the individual during the succeeding five years.

An individual is still not permitted to deduct a loss on a contribution of property to Northwestern where his tax basis for the property exceeds its value at the time of the transfer. It is generally to the donor's advantage in such a situation to sell the property (thereby realizing his loss) and to contribute the proceeds of sale to Northwestern.

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III. Life Income Gifts and Other Split-Interest Transfers

Introduction

A split-interest transfer is one where a donor transfers less than his entire interest in property to Northwestern and either transfers (including a prior transfer) an interest in the same property to a non-charitable donee or retains it for himself. A transfer to Northwestern of an undivided portion of a donor's entire interest in property and a transfer of property to Northwestern subject to a reserved income interest in the property (such as a charitable remainder trust) are two examples of split-interest transfers.

The value of an individual's gift to Northwestern and hence the amount of his charitable deduction where the donor does not transfer the entire interest in the property to Northwestern is determined by several factors peculiar to the particular type of transfer. An individual's Federal income tax deduction for a gift to Northwestern of less than the entire interest in property is also subject to the limitations discussed above in the section on the Federal tax treatment of gifts to Northwestern. Accordingly, the amount of a donor's Federal income tax deduction for the value of his gift to Northwestern may be reduced by the limitations previously discussed.

Under present Federal tax law, the subject of split-interest transfers is divided into two categories: Transfers in trust and transfers not in trust.

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1. Transfers In Trust

A gift to charity of a remainder interest in property transferred in trust (where less than the donor's entire interest in the property is given to charity) is deductible for Federal tax purposes only if the trust is:

1. a pooled income fund trust,
2. a charitable remainder annuity trust; or
3. a charitable remainder unitrust.

Each of the three trusts differs from the other two. However, the trusts are similar in many respects, and certain aspects of a donor's transfer to any of the trusts are common to a transfer to all. A summary of the trusts' similarities and the common aspects of a transfer to any of the three trusts will provide a useful background for a more detailed discussion of the trusts later.

Unless the context indicates otherwise, the term "income interest" will include an annuity or unitrust amount payable under a charitable remainder trust, as well as an income interest in a pooled income fund; and the term "retained interest" will include an interest created by the donor in favor of one or more non-charitable beneficiaries other than himself as well as an interest retained by him. In addition, the definitions in the earlier section on the Federal tax treatment of gifts to Northwestern will continue to apply.

A donor of property to a pooled income fund or to a charitable remainder trust (either an annuity trust or a unitrust) may

designate one or more specified beneficiaries (including himself, his spouse, or any other person) to enjoy income distributions concurrently, consecutively, or both concurrently and consecutively. However, each of the income beneficiaries must be living at the time of the transfer (unless the transfer is to a charitable remainder trust whose duration is for a term of years). Generally, the interest of each income beneficiary (if there is more than one), as well as the identity of each income beneficiary, must be specified at the time of the transfer.

Upon the expiration of the last (or only) income beneficiary's interest, the remainder interest must either pass to, or be held in trust for, charity. Neither a pooled income fund nor a charitable remainder trust can have a non-charitable remainder beneficiary.

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A donor may transfer property to a pooled income fund or to a charitable remainder trust either by a gift during his lifetime or by his will. If the transfer is made during the donor's lifetime, he is entitled to a Federal income tax deduction for the value of the remainder interest and, in addition, incurs no Federal gift tax on the transfer of the remainder interest to charity. If the transfer is by will, the value of the remainder interest given to charity is not subject to Federal estate tax (and, of course, is not subject to income tax).

If the donor desires, he may provide at the time of the transfer that a portion of the income shall be paid, in the case

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of a transfer to a pooled income fund, to the public charity maintaining the fund and, in the case of a transfer to a charitable remainder trust, to any charity. Ordinarily, the donor would not be entitled to a Federal income tax deduction for a gift to charity of such an income interest, and he would not be subject to tax on the income paid to charity in each year. However, he would receive a deduction for Federal gift or estate tax purposes for the value of the income interest given to charity.

No deduction will be allowed a donor for a transfer to a pooled income fund or a charitable remainder trust unless the governing instrument of the fund or trust contains certain provisions which satisfy the requirements imposed by the Tax Reform Act. Some of these provisions, which are quite technical, will be discussed later in the section on each of the trusts.

A donor generally will not recognize a gain or loss for Federal income tax purposes on the transfer of property to a pooled income fund or a charitable remainder trust, even though the value of the interest retained by the donor exceeds his adjusted basis for the property transferred in trust. (An exception to this rule is a transfer of property subject to an indebtedness, which creates problems, both for the donor and for the fund or trust, that are beyond the scope of this paper.)

A donor will incur no Federal gift tax on the transfer of property to a pooled income fund or a charitable remainder trust if he retains an interest in the property solely for his own benefit.

A transfer by a donor to a pooled income fund or a charitable remainder trust where the donor creates an irrevocable income interest in favor of his spouse or another person, is subject to Federal gift tax or estate tax if the value of the interest exceeds the total of the exclusions, exemptions and deductions available to the donor.

However, a donor to a pooled income fund or a charitable remainder trust can, if the governing instrument permits, retain a power exercisable only by his will to terminate the interest of any non-charitable beneficiary, which will enable him to avoid any Federal gift tax on the value of a survivor's income interest where the donor alone is the initial income beneficiary.

If a donor transfers property during his life to a pooled income fund or charitable remainder trust and retains for his life the initial (or only) income interest in the property transferred, the entire value of the transferred property (determined as of his death or the alternate valuation date) will be included in his gross estate for Federal estate tax purposes. However, the value of the remainder interest passing to charity is deductible for Federal estate tax purposes. Thus, only the interest of a survivor beneficiary would be subject to tax in the donor's estate. In certain circumstances, where the donor's estate avails itself of the "maximum marital deduction", Federal estate taxes payable by his estate may actually be reduced because of the inclusion of the value of the transferred property in his estate.

A. Pooled Income Fund

A pooled income fund is an investment fund (maintained by a public charity such as Northwestern) which comprises commingled property contributed by many donors who have retained life income interests in the property. The remainder interests have been contributed to the public charity which maintains the fund. A pooled income fund retains many of the characteristics found in a charitable remainder trust prior to the Tax Reform Act, but incorporates a number of provisions which eliminate some of the advantages of charitable remainder trusts under prior law.

Under present law, a donor is allowed a charitable contribution deduction, subject to the limitations discussed above, for a transfer of cash or other property to a pooled income fund only if all the following conditions are met:

1. The donor must irrevocably transfer in trust a remainder interest in property to or for the use of a public charity such as Northwestern.

2. The donor must retain an income interest (which is defined to exclude all capital gains) for the life of one or more beneficiaries living at the time of the transfer.

3. The property transferred by the donor must be commingled with property transferred by other donors.

4. The fund cannot accept from a donor, or invest in, any "tax-exempt securities".

5. The fund must be maintained by the charity to which the remainder interest is contributed, and no donor or beneficiary of an income interest can be a trustee of the fund. (The fact that a donor or beneficiary of an income interest is a trustee, officer or other official of the charity ordinarily will not prevent the fund from meeting this condition, since the charitable institution maintains, or is the trustee of, the fund -- not the individual Trustees or other officials of the institution.)

6. The amount of income which a beneficiary receives from the fund in each year must be determined by the fund's rate of return for that year.

7. The fund can include only property received in transfers which meet the requirements for transfers to a pooled income fund (or proceeds from the sale of such property).

Upon the termination of a non-charitable beneficiary's interest in the fund, the trustee is required to sever from the fund an amount equal to the current value of the property in the fund upon which the income interest is based. This severed amount must then be transferred to the charity, either for its general purposes or for any special purposes designated by the donor.

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The pooled income fund is a separate entity for tax purposes and files a separate tax return from the charity which it supports. Unless the fund realizes short-term capital gain (which is not distributed during the year to the charity) or accepts property subject to a debt placed on it by the donor, the fund itself would not be subject to tax.

The fund pays no Federal income tax on realized long-term capital gains accumulated for later distribution to the charity. The fund cannot accumulate income for later distribution to an income beneficiary and no invasions of principal for an income beneficiary are allowed. The beneficiaries of the income interests in the fund are subject to tax on the amount distributed to them each year on the basis of their respective interests in the trust. Generally, the entire amount distributed would be taxable to them as ordinary income.

A donor of property to a pooled income fund is entitled to a charitable deduction for the value of the remainder interest in the fund. The value of the remainder interest is determined by subtracting the actuarially discounted present value of the income interest retained by the donor from the fair market value of the contributed property. The present value of this income interest is based on the fund's rate of return, the age, sex and number of the income beneficiaries, and the value of the property transferred. For funds in existence less than three years, the rate of return is assumed to be six percent. For funds in existence three

years or more, the highest rate earned by the fund for any of the three years immediately preceding the date of the transfer is used to determine the value of the income interest.

The rate of return earned by the fund will have a two-edged effect on the fund's usefulness as a fund-raising vehicle. An historically high rate of return (to the extent it is interpreted as a prediction of future performance) would appeal to a donor who wants to receive the maximum income. However, the high rate of return would reduce the amount of the donor's charitable deduction. A low rate of return, on the other hand, is more likely to appeal to a donor who is not interested in receiving the maximum current income but is seeking a larger charitable deduction. If the low rate of return results from investment by the fund in "growth" securities, it is possible that the future growth in the value of the fund might result in more income being distributed in later years to the fund's beneficiaries then would be the case if the fund were invested primarily in securities less likely to increase in value.

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Unlike the other forms of split-interest transfers, where a donor may initiate the gift, Northwestern must first establish a pooled income fund before a prospective donor can make a gift to Northwestern using this vehicle. Moreover, only a "public charity" such as Northwestern can establish a pooled income fund which provides donors to the fund with the Federal tax advantages described above.

A public charity can maintain more than one pooled income fund with similar or different investment objectives, provided the funds are not used as a device to permit donors to create a fund subject to manipulation by them. For example, Northwestern could establish a high yield pooled income fund invested primarily for current income and a "growth" or "balanced" pooled income fund where less emphasis was placed on current income and the fund's investment objectives emphasized growth in the value of the fund's principal.

Initially, the Development Department recommends the establishment of, and immediate solicitation of gifts to, a high yield pooled income fund. The Department also recommends the establishment at this time of a balanced fund, emphasizing reasonable growth in the value of the fund's principal as well as current income, but with intensive solicitation of gifts to the balanced fund deferred until such time as the fund has been in existence more than three years. After three years, a donor could value his gift to Northwestern on the basis of the highest rate of income paid by the fund, based on its actual performance during the preceding three years, rather than on an assumed yield of six percent, which would very likely exceed the actual income distributed to the beneficiaries.

Several problems arise in connection with the formation and operation of a pooled income fund. However, in the opinion of the Development Department and the University's counsel, none of these problems, with the exception of the somewhat uncertain

status of the regulation of pooled income funds by the Securities and Exchange Commission, poses a significant obstacle to the establishment by Northwestern of a pooled income fund; and all of the problems, which are primarily of an administrative nature, can be resolved by the Committee on Investments of the Board of Trustees.

The Securities and Exchange Commission (S.E.C.) has issued a "no action letter" in response to the request of the American Council on Education (A.C.E.) for advice on the application of the Federal securities laws to the establishment and maintenance of pooled income funds by member schools of the A.C.E. The S.E.C.'s Division of Investment Company Regulation has recommended that the Commission not take any action if an eligible public charity establishes or maintains a pooled income fund, provided that each prospective donor receives "written disclosures which fully and fairly describe the operation" of the fund. Efforts are now under way to clarify the nature and extent of the disclosures which will satisfy the S.E.C.

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B. Charitable Remainder Trusts

The Tax Reform Act eliminated the charitable deduction allowed under prior law to an individual donor of a traditional charitable remainder trust, under which the income of the trust (determined under local law) was paid to one or more non-charitable beneficiaries and the principal, upon the expiration of the last (or only) income beneficiary's interest, was paid to charity. (Existing charitable remainder trusts established under instruments such as an irrevocable trust agreement or the will of a decedent prior to the effective date of the Tax Reform Act are not affected.)

Transfers involving charitable remainder trusts under prior law accounted for considerable Federal tax litigation because the differences in local law, the non-uniformity and variety in the governing instruments, and other aspects of the transfers could result in no close correlation between the amount of a donor's charitable deduction for Federal tax purposes and the amount ultimately received by charity. The Tax Reform Act created two new kinds of trusts in an effort to avoid this litigation and to increase the correlation between the amount of the donor's charitable deduction and the amount ultimately received by charity. These two new trusts are the charitable remainder annuity trust and the charitable remainder unitrust.

The principal difference between a charitable remainder annuity trust and a charitable remainder unitrust is the difference in the nature of the "income interest" of the non-charitable benefi-

ciaries (which of course affects the nature of the interest given to charity). In an annuity trust, the income beneficiary receives a "guaranteed annuity" expressed in terms of either a stated dollar amount or a fraction or percentage of the initial net value of the trust assets. In a unitrust, the income beneficiary receives a "variable annuity" based on a fixed percentage (expressed as either a fraction or a percentage) of the net value of the trust assets determined annually.

Under present law, an individual is entitled to a charitable deduction for Federal tax purposes for a transfer of cash or other property to a charitable remainder trust if the following requirements are met:

1. The governing instrument (e.g., an irrevocable trust agreement or will) must provide for a distribution at least annually to one or more specified persons, at least one of whom is a non-charitable beneficiary living at the time of the transfer.

2. The distribution in each year must be (i) a specified amount which is not less than five percent of the initial net value of the trust assets in the case of an annuity trust (the annuity trust amount), or (ii) a specified percentage which is not less than five percent of the net value of the trust assets determined annually (using the same valuation

date or dates and methods each year) in the case of a unitrust (the unitrust amount).

3. The distributions must be made for (i) a term of years (but not in excess of twenty) or (ii) the life or lives of the non-charitable beneficiary or beneficiaries specified in the governing instrument who are living at the time of the transfer, or (iii) a combination thereof lasting not longer than the lives of the beneficiaries living at the time of the transfer.

4. The trust may make no distribution (other than the annuity trust amount or unitrust amount) to or for the use of any non-charitable beneficiary.

5. The governing instrument must provide for an irrevocable remainder interest in the property to be held for the benefit of, or paid over to, charity after the expiration of the last (or only) non-charitable interest.

6. In the case of an annuity trust (but not a unitrust) no transfer may be made to the trust after the initial contribution.

The Tax Reform Act also permits a donor to create a "net income unitrust", under which the governing instrument may provide that the trust distribute in each year the specified percentage of the net value of the trust assets determined annually or, if less,

the amount of the trust's income (defined so as to exclude all capital gains). If the trust income is less than the specified percentage in any year, the governing instrument also can, but need not, provide that such deficiency be made up in later years when and if the trust's income exceeds the specified percentage.

With the limited exception of the net income unitrust, a charitable remainder trust must be either an annuity trust or a unitrust. The governing instrument cannot provide for the distribution of a "guaranteed annuity" or a "variable annuity", but must specify one or the other.

Unlike an annuity trust, additional transfers may be made to a unitrust if the governing instrument provides for the determination of the required distribution for the year of any additional contribution on a daily basis. Thus, the same unitrust can be used by a donor who contemplates a series of charitable remainder gifts.

A donor of a charitable remainder trust may provide for an annual distribution in excess of five percent of the initial net value in the case of an annuity trust or in excess of five percent of the annual net value in the case of a unitrust. However, since the donor's charitable deduction for Federal tax purposes is determined by reference to the amount of the annual payment and the duration of the non-charitable beneficiaries' interests, a higher percentage decreases his deduction. In determining a donor's charitable deduction for a transfer to a net income unitrust, the fixed percentage must be used irrespective of whether prior years' deficiencies are to be made up or not.

As in the case of transfers to a pooled income fund, a donor's charitable deduction for a transfer to a charitable remainder trust which is to continue for the life or lives of the non-charitable beneficiaries generally decreases as the number of income beneficiaries increases and increases as the age or ages of the income beneficiaries increase.

Unlike a pooled income fund, a charitable remainder trust need not be maintained by a public or other charity (for example, a bank could serve as trustee); and the remainder interest may be transferred to, or held in trust for, any charity -- not only a public charity such as Northwestern.

The governing instrument of a charitable remainder trust is required to include a number of mandatory provisions before a donor is entitled to a charitable deduction for Federal tax purposes. Included among these provisions are requirements that the trust function solely as a charitable remainder annuity trust or charitable remainder unitrust from its creation, that distributions based on incorrect valuations be rectified, that the distribution in a short taxable year of the trust be prorated on a daily basis, that alternate charitable remaindermen be designated, and that the trust be prohibited from engaging in certain activities.

The rules governing charitable remainder trusts have been widely criticized, with the result that many prospective donors to Northwestern have been discouraged from creating charitable remainder trusts, which under prior law accounted for a significant amount

(both in number and value) of the deferred gifts made to Northwestern. The Development Department believes that it can play an important role, in conjunction with the Office of the University Attorney, in presenting information to prospective donors and their financial and legal advisors on the uses and pitfalls of charitable remainder trusts and, wherever possible, cooperating with such donors and their advisors in the establishment of charitable remainder trusts benefitting Northwestern.

A charitable remainder trust is a separate taxpayer, as is a pooled income fund, and is exempt from taxation, unless the trust has unrelated business income. However, distributions to the beneficiaries of a charitable remainder trust are not exempt and are taxed to the beneficiaries as follows:

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First, as ordinary income to the extent of the trust's ordinary income for the current year and undistributed ordinary income from prior years.

Second, as capital gain, to the extent that the trust has capital gains for the current year and undistributed capital gains from prior years. For each year, short-term capital gain is deemed distributed prior to any long-term capital gain.

Third, as other income, including tax-exempt income, to the extent the trust has such income for the current year and undistributed other income for prior years.

Fourth, as a distribution of corpus.

The Tax Reform Act does not expressly prohibit a donor from transferring tax-exempt securities to a charitable remainder trust or the trust from investing in such securities, as it does in the case of a pooled income fund. However, it is our understanding that the Internal Revenue Service is attempting to eliminate the use of tax-exempt securities in charitable remainder trusts. Consequently, the Federal tax treatment of a charitable remainder trust where the governing instrument directs or authorizes investment in tax-exempt securities in the future is uncertain.

C. Charitable Lead Trust

A charitable lead trust is a trust in which the income or "lead" interest is given to charity and the remainder interest is given to one or more non-charitable beneficiaries. The Tax Reform Act eliminated substantially all the Federal tax advantages which a donor previously obtained from a transfer in trust under which the income (determined under local law) was paid to charity and introduced the concepts of an annuity trust and unitrust to charitable lead trusts.

With the exception that the interests of charity and the non-charitable beneficiaries are reversed, a charitable lead trust is very similar to a charitable remainder trust. There are, however, a number of other significant differences between a charitable lead trust and a charitable remainder trust: (1) no minimum annual distribution to charity is required in the lead trust (compared with a five percent minimum to the non-charitable beneficiaries in a charitable remainder trust); (2) a charitable lead trust may continue for a term of more than twenty years (whereas the maximum term of years for a charitable remainder trust is twenty); (3) the interest given to charity may not be a "net income unitrust" interest under which distributions to charity are limited to the stated percentage or the net income, if less; and (4) additional contributions may be made to a charitable lead trust even if it is an annuity trust.

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Under present law, an individual donor of a transfer in trust under which Northwestern receives an interest in the form of a guaranteed annuity (an annuity trust interest) or a percentage dis-

tributed yearly of the net value of the trust determined yearly (a unitrust interest) is entitled to a charitable deduction for Federal gift and estate tax purposes. However, the donor is not entitled to a charitable deduction for Federal income tax purposes for such a transfer (except in the unlikely event that the trust's income is taxed to him; which could occur, for instance, if the trust had a term of less than ten years).

The appeal of a charitable lead trust is limited primarily to wealthy donors who want to reduce the amount of gift or estate taxes payable on a transfer of property to family members such as their children or grandchildren. Since the reduction in Federal gift or estate taxes is achieved only at the cost of transferring an interest in the property to charity, the appeal of a charitable lead trust is further restricted to persons whose family members can forego income from the transferred property during the period of the charity's interest.

The limited appeal of transfers utilizing a charitable lead trust and the highly specialized nature of any such transfers prevent formulation of any detailed guidelines as to Northwestern's policy on such gifts or the formulation of limits applicable to them. Moreover, unlike a charitable remainder trust where Northwestern, as the ultimate donee, will frequently serve as trustee, Northwestern is less likely to serve (or be asked to serve) as trustee of a charitable lead trust since it does not receive the principal of the trust upon its termination.

A further problem arises in connection with ' thwestern serving as trustee of a charitable lead trust. Such a ivity places the University in direct competition with corporate fi. ciaries and could result in difficult relations with such corp ate fiduciaries. Accordingly, the Development Department recommends that Northwestern not serve as trustee of a charitable lead trust without obtaining approval of such action in advance on an individual basis from the Board of Trustees.

It is not anticipated that transfers utilizing a charitable lead trust will account for a significant number of gifts to Northwester in the future, although the income which Northwestern might derive from such gifts might be significant.

2. Transfers Not in Trust

Introduction

An individual can give a partial interest in property (not in trust) to a public charity such as Northwestern and receive a charitable deduction for Federal tax purposes when the contribution takes the form of a gift of a remainder interest in a personal residence or farm or a gift of an unidvided portion of his entire interest in the property.

In addition to gifts of a remainder interest in certain real estate and an undivided portion of the donor's entire interest in property, certain other non-trust gifts of a partial interest in property entitle an individual to a charitable deduction for Federal tax purposes. The subject of these other non-trust gifts of a partial interest in property is extremely complex because of the non-uniformity of the Federal income, gift, and estate tax laws. In the past, Northwestern has not received any significant amount of support from non-trust gifts of a partial interest in property; and it appears that such gifts to Northwestern in the future will not be significant, either in terms of their number or value. Accordingly, they are omitted from the discussion which follows.

An individual can also receive a charitable deduction for a gift made in connection with a bargain sale of property to a charity, including the purchase of a charitable annuity from the

charity. A bargain sale of property and the purchase of a charitable annuity involve a sale or exchange by a donor of property in return for cash or other property such as the charity's promise to pay the annuity. Ordinarily, this element of a sale or exchange is not present in the other types of split-interest transfers (whether made in trust or not), and can result in a donor realizing taxable gain or ordinary income on a bargain sale or charitable annuity transaction (see discussion later in this section).

A. Remainder Interest in a Personal Residence or Farm.

An individual is entitled to a charitable deduction for Federal tax purposes for a gift to Northwestern of a remainder interest in a personal residence or farm. The donor may retain an interest in the property for a term of years or for the life or lives of himself and one or more other persons. The amount of his charitable deduction for Federal gift or estate tax purposes is the value of the property discounted to reflect the retained interest.

However, in determining the amount of his charitable deduction for Federal income tax purposes, the donor is first required to reduce the amount of his deduction by taking into account straight line depreciation and depletion on the property. This reduction is required whether or not the property may decrease, or may in fact increase, in value. The value of the property, after taking straight line depreciation or depletion into account, must then be discounted to reflect the retained interest. Thus, the amount of an individual's Federal income tax deduction under present law will be less than that allowed under prior law.

Although Northwestern has accepted gifts of remainder interests in such real estate in the past and will continue to do so in the future, these gifts have historically accounted for a relatively small portion of its support. Thus, the change in the Federal tax treatment of these gifts appears likely to have only a relatively minor impact on the University.

B. Undivided Portion of an Individual's Entire Interest in Property.

An individual's gift to Northwestern of an undivided portion of his entire interest in property, such as an undivided one-half interest in real estate or a fractional interest in an oil or gas well, entitles the donor to a charitable deduction for Federal tax purposes, subject to the limitations discussed above.

In the past, these gifts have not accounted for a significant amount of Northwestern's support, either in terms of the number of gifts or their value, and it is not anticipated that the importance of such gifts to Northwestern in the future will increase dramatically.

C. Bargain Sale.

A bargain sale is a sale of property to a charity such as Northwestern for an amount less than the property's value. The excess of the property's fair market value over the sale price represents a contribution to the charity.

Under prior law, it was a common practice for a donor to sell appreciated property to a charity such as Northwestern for an amount equal to his tax basis. The donor realized no gain on the transaction (since the amount he received did not exceed his basis), and he

received a charitable deduction for Federal tax purposes in an amount equal to the excess of the property's value over the sale price.

Under present law, a bargain sale of property to charity (including a transfer by the donor of property subject to an indebtedness) has lost much of the Federal income tax benefit formerly available. A donor is now required to allocate his tax basis for the property (along with any ordinary income, including short-term capital gain, and any long-term capital he would have realized on a sale of the property at its fair market value) between the part treated as sold and the part treated as contributed, on the basis of relative fair market values, if he is entitled to a charitable deduction by virtue of the transaction.

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As a result of the Tax Reform Act, a donor will now realize taxable income on a bargain sale to Northwestern of any appreciated long-term capital gain property, even if the sale price does not exceed his tax basis. In addition, a donor will realize more taxable income under present law on a bargain sale of such property to Northwestern if the sale price exceeds his basis than he would have realized formerly. Finally, a donor will also realize taxable income on a bargain sale of ordinary income, including short-term capital gain, property to Northwestern where the sale price is less than his basis for the property. In each case, however, the donor is entitled to a charitable deduction for Federal income tax purposes in an amount equal to the sum of his basis and any long-term capital

gain that he would have realized on a sale of the property at its fair market value which are allocated to the contributed portion of the property.

A donor is not entitled to any charitable deduction for Federal income tax purposes on a bargain sale to Northwestern of property which if sold by him at its fair market value would have resulted solely in ordinary income, including short-term capital gain, where the sale price is equal to, or in excess of, his basis for the property. Accordingly, he will realize income only to the extent that the sale price exceeds his basis for the entire property (since his basis for the property need not be allocated between the parts treated as contributed and sold).

The Tax Reform Act did not affect a donor's charitable deduction for Federal gift or estate tax purposes on a bargain sale of property to a charity. Accordingly, a donor is still entitled to a deduction for, and therefore incurs no tax on, the excess of the fair market value of the property sold over the sale price.

In the past, Northwestern frequently received gifts from donors in connection with bargain sales of long-term capital gain property (typically publicly traded securities held more than six months). Now that the appreciation in value of such property is taxed, it is likely that the University will experience a decline in both the number and value of such gifts.

D. Charitable Annuity.

A charitable annuity involves a transfer of cash or other property by a donor to a charity such as Northwestern in exchange

for the charity's promise to pay an annuity to one or more annuitants (such as the donor, his spouse, or any other person) designated by him.

A charitable annuity is treated for Federal tax purposes as the purchase of an annuity contract from, and a gift to, the charity issuing the annuity. The excess of the fair market value of the property transferred to the charity over the present value of the annuity payments represents a contribution by the donor.

The charity determines the amount of each annuity payment by reference to the number, sex and age of the annuitants and the value of the transferred property. If the annuity is a joint and survivor annuity, the amount of the payment is less than if there is only one annuitant. Similarly, the rate of payment (i.e., the amount of each annuity payment) is less for an annuitant who is fifty years old than for an annuitant who is sixty years old at the annuity's starting date.

The amount of each annuity payment is set at the time of the transfer, and is not dependent on the income earned on the transferred property. In this respect, payments under a charitable annuity are similar to payments from a charitable remainder annuity trust and are different from pooled income fund or unitrust distributions, which may fluctuate in amount.

In computing the rate paid on charitable annuities, Northwestern uses tables provided by the Committee on Gift Annuities (a voluntary association representing over 200 charities which issue

annuities). These tables have been prepared so as to produce, on the average, a gift to the charity of approximately 50% of the amount transferred by the donor. Consequently, the amount of the payments to the annuitants are generally much lower than would be the case if the annuity were issued by a commercial insurer.

Northwestern's obligation to pay the annuity is not limited to the value of the property transferred to it. Thus, Northwestern's promise to pay the annuity represents a contractual promise, backed by the general credit of the University, for the payment of the annuity.

Since Northwestern's obligation under these annuities is not limited to the amount received by it, there is a risk that the University would be required to make annuity payments in excess of the amount it receives if the annuitants outlive their life expectancies by a substantial number of years. However, the protection afforded the University by the tables of the Committee on Gift Annuities decreases this risk.

The University's experience with charitable annuities in the past has been very favorable. Practically all of the charitable annuity transactions have resulted in gifts to Northwestern, following the death of the last or only annuitant, of substantially more than fifty percent of the initial value of the transferred property.

The Tax Reform Act did not change the rules previously applied to an annuitant's Federal tax treatment of payments received under a charitable annuity in exchange for the transfer of cash.

Thus, a portion of each annuity payment is still treated as a return of the donor's investment in the annuity contract (and therefore is not subject to tax) and the balance is taxable to the annuitant as ordinary income, determined on the basis of tables provided by the Internal Revenue Service. However, other changes made by the Tax Reform Act did affect the Federal tax treatment of charitable annuity transactions using property other than cash.

Under present law, if a donor exchanges appreciated long-term capital gain property for a charitable annuity, he is required to allocate a portion of his basis in the property to the part treated as contributed, and therefore will realize income taxable as long-term capital gain on the transaction to the extent that the present value of the annuity payments exceeds his basis for that part of the property treated as exchanged for the annuity.

If the donor is the initial or only annuitant and the annuity is not assignable (except to the charity issuing it), he is permitted to report any gain on the transfer ratably during the period in which he may expect to receive payments, with any gain unreported at his death required to be reported by the surviving annuitant or annuitants for any payments received by them. If the donor is not the initial annuitant or the annuity is freely assignable, regulations issued by the Treasury Department provide that the gain is taxable to him immediately.

A donor who transfers to Northwestern property which if sold by him at its fair market value would result solely in ordinary

income, including short-term capital gain, in exchange for the annuity is also required to allocate his basis in the property if he receives a charitable deduction for Federal income tax purposes.

The donor's deduction for Federal income tax purposes on a charitable annuity transfer is determined in the same manner as his deduction for a bargain sale. Accordingly, he is entitled to a deduction in an amount equal to the sum of his basis and any long-term capital gain that he would have realized on a sale of the property at its fair market value which are allocated to the contributed portion of the property.

The Tax Reform Act did not affect a donor's charitable deduction for Federal gift or estate tax purposes on the purchase of a charitable annuity. Accordingly, a donor is still entitled to a deduction for, and therefore incurs no tax on, the excess of the fair market value of the property transferred over the present value of the annuity payments.

A ruling issued by the Internal Revenue Service in 1962 (that a donor was taxable immediately on the appreciation in value of property transferred in exchange for a charitable annuity where the present value of the annuity payments exceeded the donor's entire basis for the property) resulted in a significant decline in the number of charitable annuities issued by Northwestern in exchange for such property. However, the Development Department would like to renew its promotion of charitable annuities in light of the Regulations issued by the Treasury Department which are discussed above

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that permit a donor to avoid the immediate taxation of all the gain on the purchase of a charitable annuity using appreciated securities. The Department would also like to continue its promotion of charitable annuities issued in exchange for cash.

Northwestern has generally commingled property received in exchange for a charitable annuity with other property transferred to the University in connection with other charitable annuities and accounted for this property separately. The University is not obligated to segregate property received in exchange for charitable annuities since the donor has not retained an interest in the property, but has exchanged the property for Northwestern's promise to pay the annuity. The practice of accounting for such property separately has enabled Northwestern to make the charitable annuity payments without recourse to the University's general funds.

Upon the death of the last or only annuitant, the University has generally transferred an amount equal to the value of the property on which the annuity was based from the annuity reserves to the University's general fund (in the case of an unrestricted transfer) or to an account established for purposes designated by the donor. The Development Department recommends that this practice be continued.

IV. Limitations on Life Income Agreements

In all the life income programs described above (with the exception of the charitable annuity), Northwestern must wait until the expiration of the non-charitable income beneficiaries' interests before it is entitled to the full possession and enjoyment of the property. Even though Northwestern is entitled to the immediate, unfettered possession and enjoyment of property received in exchange for a charitable annuity, the University traditionally has segregated this property also until the expiration of the annuitants' interests.

During the period intervening between the date of the transfer and the expiration of the last income beneficiary's interest, in the case of all charitable annuities and in the case of those other transactions where it is serving as Trustee, Northwestern is required to perform services and incur expenses in connection with the transfer. In the past, the cost of these services and expenses has been borne by the University, and the Development Department recommends that Northwestern continue to absorb these costs.

However, because of Northwestern's postponed enjoyment and the costs of administering any life income program during the period of this postponed enjoyment, the Development Department recommends that the Board of Trustees establish guidelines for Northwestern's life income gift program.

May 8, 1973

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NORTHWESTERN UNIVERSITY
DEFERRED GIVING GUIDELINES

1. Role of Northwestern's Legal Counsel.

Northwestern's Development Department shall work closely with, and seek the advice of, the Office of the University Attorney on all matters relating to the operation and promotion of Northwestern's Deferred Gift Program. No officer of the University shall enter into any agreement with a donor, or otherwise commit Northwestern to act as trustee under any instrument, without the advice and prior written approval of the Office of the University Attorney.

2. Role of Prospective Donor's Advisors.

The Development Department shall advise and encourage all prospective donors to seek the independent counsel of their attorney and other advisors on all matters relating to any proposed gift to Northwestern, whether the gift is made by the donor's will or during his lifetime. Prospective donors shall be urged, in the case of all proposed life income gifts, to seek the counsel of their legal advisors because of the tax and other consequences of such transfers for the donor's estate plan. Northwestern's own attorneys, officers and Development staff cannot under any circumstances serve as legal counsel to donors.

3. Confidential Information.

All information about a donor or prospective donor,

including the name of the donor, the amount of the gift, and the name or names of any other beneficiaries of the gift, shall be held in strict confidence by the University and its staff. Unless prior written authorization is obtained from the donor and from the Director of Development for disclosure of any or all of this information, no such information will be released.

4. Authorization for Negotiation.

The Vice President for Development and his staff are authorized to negotiate deferred giving agreements with prospective donors, following the guidelines and the format of the specimen agreements approved by the Committee on Investments, without further approval.

The Vice President for Development and his staff shall obtain written approval of the Vice President and Controller and the Director of the Investment Department before final negotiation of any agreement where the proposed transaction does not follow the form of, and the limitations applicable to, such transaction as shall have been approved by the Committee on Investment.

The power to commit University resources shall remain with the authorized Officers of the University, to be exercised in accordance with established procedures.

The Vice President for Development and his staff shall obtain prior written approval from the Director of the Investment

Department, before final negotiation of any agreement under which real estate or any interest in real estate or any property which does not have a readily ascertainable market value is transferred to Northwestern's pooled income funds, or to Northwestern as trustee under any annuity trust or unitrust agreement, or in exchange for any charitable annuity.

5. Pooled Income Fund

The minimum transfer (which shall include all contributions made by a donor pursuant to an agreement designating the income beneficiary or beneficiaries) to the pooled income fund should be $5,000 for an initial contribution and $1,000 for any additional contribution. The minimum age for any income beneficiary should be fifty years, and the maximum number of income beneficiaries (whether consecutive or concurrent) per transfer should be two.

6. Governing Charitable Remainder Annuity Trusts.

If Northwestern is to serve as trustee without compensation, no charitable remainder annuity trust shall be entered into with a donor for the sum of less than $50,000. The fixed dollar amount to be paid annually shall be no less than 5% of the initial net fair market value of the assets transferred (the minimum set by law) and no more than 7% of the initial net fair market value of the assets transferred. No beneficiary shall be under the age of fifty, and the maximum number of beneficiaries shall be two.

7. Regarding Charitable Remainder Unitrusts.

If Northwestern is to serve as trustee without compensation, no charitable remainder unitrust shall be entered into with a donor for a sum of less than $50,000. The fixed percent to be paid shall be no less than 5% (the minimum required by law) and no more than 7%.

No beneficiary shall be under the age of fifty and the maximum number of beneficiaries shall be two. Where additional transfers to a charitable remainder unitrust are permitted by the terms of its governing instrument, the minimum for any additional transfer should be $5,000.

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8. Charitable Annuity.

The University should not issue a charitable annuity where the value of the property transferred in exchange for the annuity is less than $10,000. Prospective donors wanting to transfer less than this amount should be encouraged to make contributions to Northwestern's pooled income fund.

The minimum age for income beneficiaries should be fifty years, the maximum number of annuitants (whether consecutive or concurrent) should be two, and the value of the gift to Northwestern, computed using Federal government charitable contribution deduction tables, should exceed 10% of the amount transferred for the annuity. Northwestern shall continue generally to follow the rates recommended by the Committee on Gift Annuities.

9. Retained Life Interest in Gift of Residence or Farm.

Acceptability of property must be approved by the Investment Department first; then approved by the Office of the University Attorney. In case of the gift of an Evanston residence, additional approval must be obtained from the Vice President and Business Manager.

GIFT ANNUITY AGREEMENT

THIS AGGREMENT, made this 14th day of December, 1976, between NORTHWESTERN UNIVERSITY, an Illinois corporation (hereinafter called "Northwestern") and
his wife, residing at , Illinois (hereinafter called "Donors").

WITNESSES THAT:

FIRST: Northwestern agrees to pay to the aforesaid as Life Beneficiary, for her life, an annuity or annual sum of $1020.00 from the date hereof, in equal quarterly installments of $255.00 on the last day of January, April, July and October. The first installment shall be payable on January 31, 1977, and shall be prorated on the basis of the number of days in the quarter between the date of gift and January 31, 1977.

SECOND: The obligation of Northwestern to make annuity payments shall terminate with the payment preceding the death of the aforesaid , at which time it is expressly agreed that Northwestern shall be discharged and forever released from any further responsibility or obligation whatsoever, which may have been assumed by it under this agreement.

THIRD: Northwestern certifies that as evidence of their desire to further the work of Northwestern and to make a charitable gift, have this day contributed and voluntarily given to it the sum of Ten Thousand Dollars ($10,000.00), receipt of which is acknowledged.

FOURTH: It is expressly agreed by the Donors and by Northwestern that upon the maturity of this agreement, the balance of the amounts given by the Donors will be added to the Fund #990 at Northwestern University.

FIFTH: Donors hereby certify that date of birth is May 3,

IN WITNESS WHEREOF Northwestern and Donors have set their hands and seals the date first written above.

NORTHWESTERN UNIVERSITY
By: _____

ATTEST:

_____
Assistant Secretary

_____
Donor

_____
Donor

GIFT ANNUITY AGREEMENT

THIS AGREEMENT, made this 20th day of October, 1976, between NORTHWESTERN UNIVERSITY, an Illinois corporation (hereinafter called "Northwestern") and residing at Silver Spring, Maryland (hereinafter called "Donor").

WITNESSES THAT:

FIRST: Northwestern agrees to pay to Donor, for his life, an annuity or annual sum of $690.00 from the date hereof, in equal quarterly installments of $172.50 on the last day of February, May, August and November. The first installment shall be payable on November 30, 1976, and shall be prorated on the basis of the number of days in the quarter between the date of gift and November 30, 1976.

SECOND: The obligation of Northwestern to make annuity payments shall terminate with the payment preceding the death of Donor, at which time it is expressly agreed that Northwestern shall be discharged and forever released from any further responsibility or obligation whatsoever, which may have been assumed by it under this agreement.

THIRD: Northwestern certifies that as an evidence of his desire to further the work of Northwestern and to make a charitable gift, has this day contributed and voluntarily given to it Ten Thousand Dollars ($10,000.00), receipt of which is acknowledged.

FOURTH: It is expressly agreed by the Donor and by Northwestern that upon the maturity of this agreement, the remaining balances of principal and interest related to the gift described in Article THIRD shall be available for the unrestricted use of Northwestern.

FIFTH: Donor hereby certifies that Donor's date of birth is April 16,

IN WITNESS WHEREOF Northwestern and Donor have set their hands and seals the date first written above.

GIFT ANNUITY AGREEMENT No. 2
(Deferred Payment)

THIS AGREEMENT between and of Drive, Florida, as Donors, and NORTHWESTERN UNIVERSITY, an Illinois corporation, as Donee.

W I T N E S S E T H

WHEREAS,

have previously reflected an intention to provide meaningful support for NORTHWESTERN UNIVERSITY through the establishment of two funds at NORTHWESTERN UNIVERSITY, one being a Life Income Trust established in 1961 known as the FUND, and the other being a Unitrust established in 1972 known as the and UNITRUST; and

WHEREAS, it is the desire of the Donors to continue such meaningful support for NORTHWESTERN UNIVERSITY through both the gift reflected herein and future additions to the Fund established pursuant to this Agreement.

NOW, THEREFORE, the Donors and Donee agree as follows:

FIRST: NORTHWESTERN UNIVERSITY agrees to pay to daughter of the Donors, for her life, an annuity or annual sum of 14.1% of the fair market value on the date hereof as determined under Internal Revenue Service rules of the property given this date as listed on Schedule "A" attached hereto, from the date on which she attains the age of sixty-five (65), in equal quarterly installments to be computed, based upon the said fair market value on the last days of February, May, August and November, beginning on the last day of the quarter in which the

sixty-fifth (65th) birthday of occurs, and shall be prorated on the basis of the number of days in the quarter between said sixty-fifth (65th) birthday and the last day of such quarter.

SECOND: The obligation of NORTHWESTERN UNIVERSITY to make annuity payments to the said shall terminate with the payment preceding the death of or immediately upon her death if she dies without having become entitled to receive payments hereunder, at which time it is expressly agreed that NORTHWESTERN UNIVERSITY shall be discharged and forever released from any further responsibility and obligation whatsoever, which may be assumed by it under this Agreement.

THIRD: NORTHWESTERN UNIVERSITY certifies that and , as evidence of their desire to further the work of NORTHWESTERN UNIVERSITY and to make a charitable gift, have this day contributed and voluntarily given to NORTHWESTERN UNIVERSITY the sum of Five Thousand Dollars ($5,000.00) in cash, the receipt of which is acknowledged. Following the termination of NORTHWESTERN UNIVERSITY's obligation hereunder, said sum shall be held for the same uses and purposes set forth in Paragraph Four of that certain Agreement between the Donors and NORTHWESTERN UNIVERSITY, dated December 20, 1961, and may, at NORTHWESTERN UNIVERSITY'S election become part of the Fund described in Paragraph Four of said Agreement dated December 20, 1961.

IN WITNESS WHEREOF, the said and the Donors, and NORTHWESTERN UNIVERSITY, the Donee, have hereunto set their hands and seals this 30th day of November, 1976.

[THIS FORM SHOULD BE USED ONLY WITH ADVICE OF COUNSEL]

CHARITABLE REMAINDER ANNUITY TRUST

TWO LIVES

This Charitable Remainder Annuity Trust Agreement is made on _____, 19___, between _____, of _____, State of _____, as Donor, and Northwestern University, a corporation existing under the laws of the State of Illinois, as Trustee.

1. Acknowledgement of Gift. The Trustee acknowledges receipt of the property listed on Exhibit A attached hereto as an irrevocable gift from the Donor, which property shall be held and administered in trust as follows.

2. Name of Annuity Trust. This annuity trust shall be designated on the books of the Trustee as the _____ Annuity Trust.

3. Additional Contributions. Neither the Donor nor any other person may make any additional contribution to this annuity trust.

4. Trust Investments. Nothing in this agreement shall be construed to restrict the Trustee from investing the trust assets in a manner which could result in the annual realization of a reasonable amount of income or gain from the sale or disposition of trust assets.

5. Payments to Beneficiaries. The Trustee shall pay to the Donor during his life in each taxable year of the trust

an amount equal to _____% of the initial net fair market value of the property transferred in trust (the annuity amount). After the Donor's death, if the Donor's wife, _____, survives the Donor and the Donor has not revoked her interest hereunder by his Will, the Trustee shall pay the annuity amount to her during her life in each taxable year of the trust. The Donor shall have power exercisable solely by his Will containing an express reference to this power, to revoke the interest of the Donor's wife hereunder. In determining whether the interest of the Donor's wife hereunder has been revoked by the Donor's will, the Trustee may rely upon the order of any court admitting an instrument to probate as the Will of the Donor or upon the finding of any court that the Donor died intestate or may assume upon the expiration of three months after the Donor's death that the interest of the Donor's wife was not revoked in the absence of actual notice of the Donor's Will or of probate proceedings. The preceding sentence shall not affect any right which the Donor's wife or Northwestern University may have against anyone to whom the Trustee may have made distribution. The annuity amount shall be paid in equal quarter-annual installments (on the last day of March, June, September, and December of each taxable year of the trust) from income, and to the extent that income is not sufficient, from principal. Any income of the trust for a taxable year in excess of the annuity amount shall be added to principal. The annuity amount for a short taxable

year of the trust and the taxable year of the death of the last surviving beneficiary hereunder shall be prorated on a daily basis; however, the obligation of the Trustee to pay the annuity amount to a beneficiary shall terminate with the payment next preceding the beneficiary's death.

6. Facility of Distribution. If any beneficiary to whom the Trustee is directed to make payments of the annuity amount is under legal disability or, in the opinion of the Trustee, is unable to use such payments properly for his or her benefit, the Trustee may make such payments for the benefit of the beneficiary in any one or more of the following ways: (1) to the beneficiary directly; (2) to the legal guardian or conservator of, or custodian under a Uniform Gifts to Minors Act for, the beneficiary; or (3) to any person selected by the Trustee, to be expended by such person for the benefit of the beneficiary. The Trustee shall not be required to see to the application of any such payment, and the receipt of any such payee shall fully discharge the Trustee.

7. Taxable Year. The taxable year of the trust shall be the calendar year.

8. Incorrect Valuation. If the initial net fair market value of the trust assets is incorrectly determined by the Trustee, then within a reasonable time after the final determination of the correct value, the Trustee shall pay to the beneficiary in case of an undervaluation, or shall recover from the beneficiary

to whom the Trustee has earlier made payments in case of an overvaluation, an amount equal to the difference between the amount which the Trustee should have paid if the correct value had been used and the amount which the Trustee actually paid.

9. Use After Death of Beneficiaries. Upon the death of the survivor of the Donor and the Donor's wife (or upon the death of the Donor if the interest of the Donor's wife hereunder is revoked by the Donor's Will), the Trustee shall distribute the trust (including any accrued or undistributed income) to Northwestern University to be used for:

[Select (a) or (b)]

(a) such of its exempt purposes as Northwestern University shall determine.

(b) [Insert particular use] _____

_____

_____.

If Northwestern University is not an organization described in clauses (i) through (vi) of Section 170(b)(1)(A) of the Code to which transfers are deductible under Section 2055 and Section 2522 of the Code at the time when any property is to be distributed to Northwestern University, the Trustee shall distribute such property to such organization or organizations which are so described and to which transfers are so deductible as the Trustee shall select.

10. Governing Law. It is the intention of the Donor and the Trustee in executing this agreement to create a charitable remainder annuity trust within the meaning of Section 664 of the Code and Regulations thereunder. All questions relating to the validity, construction, and effect of this instrument and the administration of the trust shall be governed by the provisions of the Code from time to time applicable to charitable remainder annuity trusts and, to the extent not inconsistent with such provisions, by the laws of the State of Illinois.

11. Trust Not Liable for Estate or Inheritance Taxes. In consideration of the acceptance by the Trustee of the property listed on Exhibit A, the Donor agrees to pay, and to provide in the Donor's Will for the payment of, any federal, state or other gift, estate, transfer, inheritance and succession tax attributable to the interest of any beneficiary out of property other than the property listed on Exhibit A.

12. Prohibited Activities. Any other provision of this agreement notwithstanding, except for payment of the annuity amount, the Trustee is prohibited from engaging in any act of self-dealing as defined in Section 4941(d) of the Code with respect to the trust, from retaining any excess business holdings as defined in Section 4943(c) of the Code which would subject the trust to tax under Section 4943, from retaining or acquiring any investment which would subject the trust to tax under Section 4944 of the Code, and from making any expenditures which would

subject the trust to tax under Section 4945 of the Code, and the Trustee shall make distributions at such time and in such manner as not to subject the trust to tax under Section 4942 of the Code.

13. Power to Amend. Northwestern University may at any time and from time to time by an instrument in writing amend all or any part of this agreement to ensure qualification of the trust as a charitable remainder annuity trust within the meaning of Section 664 of the Code or to cure ambiguities, inconsistencies or defects in this agreement; but no such amendment shall be valid (1) if and to the extent it operates to divert the irrevocable remainder interest in property transferred in trust from passing to an organization described in clauses (i) through (vi) of Section 170(b)(1)(A) of the Code to which transfers are deductible under Section 2055 and Section 2522 of the Code or otherwise disqualify the trust as a charitable remainder annuity trust within the meaning of Section 664 of the Code, or (2) if, in the judgment of Northwestern University, it shall materially adversely affect any beneficial interest in the trust.

14. Extent of Liability. The Trustee shall have the duty to act in good faith and with reasonable care and, in the absence of affirmative evidence to the contrary, shall be deemed to have so acted. The Trustee shall not be required to give any bond or security in any jurisdiction.

15. Trustee's Powers. The Trustee shall have all the powers that may be exercised by Northwestern University as trustee under the laws of the State of Illinois and such additional powers as may hereafter be permitted trustees under the laws of the State of Illinois, except to the extent limited by this agreement.

16. Compensation and Reimbursement of Expenses. Northwestern University shall not receive any compensation for its services as Trustee, but shall be entitled to reimbursement out of the income of the trust for any reasonable and proper fees and expenses paid by Northwestern University in connection with the administration of the trust.

17. Code References. All references to Sections of the Code are to the Internal Revenue Code of 1954, as amended, and shall be deemed to refer to corresponding provisions of any subsequent federal tax laws.

18. Successors and Assigns. This agreement shall be binding upon Northwestern University, its successors and assigns, and upon the Donor, any beneficiary of an annuity amount, and the legal representative of the Donor and each such beneficiary.

IN WITNESS WHEREOF, the parties have set their hands and seals hereto in duplicate on the date first above written.

In the presence of:

_____ _____(SEAL)
Donor

_____

NORTHWESTERN UNIVERSITY

By_____(SEAL)

Attest:

Name:

_____ Title:

CHARITABLE REMAINDER UNITRUST AGREEMENT

TRUST AGREEMENT made this _____ day of _____, 1976, between _____ of Chicago, Illinois, hereinafter called the Donor, and NORTHWESTERN UNIVERSITY, an Illinois corporation, hereinafter called the Trustee.

WITNESSETH:

WHEREAS, the Donor wishes to establish a charitable remainder unitrust for the purposes hereinafter set forth and desires to transfer certain property to be used for such purposes.

NOW, THEREFORE, in consideration of the sum of One Dollar and other good and valuable consideration, receipt whereof is hereby acknowledged, the Donor hereby assigns, transfers and conveys to the Trustee the property described in Schedule A attached hereto, and the Trustee hereby agrees to hold and administer the property described in Schedule A, and all other property which may become subject to the trusts created, upon the trusts and conditions hereinafter set forth.

ARTICLE I

This irrevocable trust shall be known as the _____ CHARITABLE REMAINDER UNITRUST.

ARTICLE II

(a) The Trustee shall distribute to the Donor as long as he shall live, in each taxable year of the trust, the amount of the trust income to the extent that such amount does not exceed six percent (6%) of the net fair market value of the trust assets valued as of the first day of each taxable year of the trust (the "unitrust amount"). The unitrust amount shall be paid in equal quarterly installments for quarters ending February 28, May 31, August 31, and November 30, respectively (the first installment payable as soon as practical following the next quarterly date after receipt of the trust corpus by the Trustee) from income. Any income of the trust for a taxable year in excess of the unitrust amount shall be added to principal. The fiscal year of the unitrust shall end on November 30. The unitrust amount for a short taxable year of the trust shall be prorated on a daily basis, except that the obligation of the Trustee to pay the unitrust amount to the Donor for the taxable year of the Donor's death shall terminate with the payment next preceding the Donor's death.

(b) If the net fair market value of the trust assets is incorrectly determined by the Trustee for any taxable year, then, within a reasonable time after the final determination of the correct value, the Trustee shall pay to the Donor in case of an undervaluation, or shall recover from the Donor in case of an overvaluation, an amount equal to the difference between the amounts which the Trustee should have paid if the correct value had been used and the amounts which the Trustee actually paid.

(c) If any property is added to the trust after the first day of a taxable year, the unitrust amount for that year shall be increased by six percent (6%) of the net fair market value of the addition on the date of such addition, prorated on a daily basis, including the date of addition, to the end of the taxable year of such addition.

(d) Upon the death of the Donor the trust (including any accrued or undistributed income), as it shall then be constituted, shall become the property of Northwestern University, an Illinois corporation, to be devoted to _____ _____ These assets may, in the discretion of the Board of Trustees of Northwestern University, be merged and mingled with and become a part of the general investment assets of said University, while always identified on the permanent records of said University as the _____ _____ Fund for the (School of Law)." The income but not the principal of said Fund shall be available for expenditure annually as described above.

(e) If Northwestern University is not, at the time of any distribution hereunder, a charitable beneficiary as hereinafter defined, the Trustee shall distribute the trust (including accrued or undistributed income) to, or for the use of, such organization or organizations selected by the Trustee which, at the time of distribution, are charitable beneficiaries.

(f) A charitable beneficiary is any corporation, trust, community chest, fund or foundation described in clauses (i) through (vi) of Section 170 (b) (1) (A) to which transfers are deductible under Section 2055 and Section 2522 of the Code.

ARTICLE III

(a) Any other provision of this instrument notwithstanding, except for the payment of the unitrust amount to the Donor, the Trustee is prohibited from engaging in any act of self-dealing as defined in Section 4941(d) of the Code, from retaining any excess business holdings as defined in Section 4943(c) of the Code which would subject the trust to tax under Section 4943 of the Code, from retaining or acquiring any investments which would subject the trust to tax under Section 4944 of the Code and from making any taxable expenditures as defined in Section 4945(d) of the Code. The Trustee shall make distributions at such time and in such manner as not to subject the trust to tax under Section 4942 of the Code.

(b) Nothing in this instrument shall be construed to restrict the Trustee from investing the trust assets in a manner which would result in the annual realization of a reasonable amount of income or gain from the sale or disposition of trust assets.

(c) The Donor intends this trust to qualify as a charitable remainder unitrust as defined in Section 664 of the Code and further intends to qualify this transfer in trust for the deductions allowable under Sections 170, 2055 and 2522 of the Code, and any provision of this instrument inconsistent with this intention shall not apply to this transfer. In furtherance of the Donor's intention, the Trustee shall have power, and the Donor directs the Trustee

to amend the terms of this instrument for the sole purpose of complying with the requirements of the Code and the Regulations thereunder; and any such amendment shall apply retroactively to the inception of the trust.

(d) The Trustee, subject to the provisions of paragraphs (a), (b), and (c) of this Article, shall have power to manage, sell, contract to sell, convey, transfer, exchange, partition, lease for any term whatsoever, even extending beyond the duration of the trust, mortgage, pledge, improve, repair, insure and otherwise dispose of and deal with all or any part of the trust property, all in such manner, for such consideration, and upon such terms and conditions as the Trustee determines; to settle, compromise or abandon all claims or demands in favor of or against the trust; to borrow money, with or without security, for any purpose; to assume the payment of and to extend and renew any indebtedness which the Trustee determines is properly payable out of the trust; to employ such agents and legal and investment counsel as the Trustee deems advisable; to give proxies for any purpose; to retain any property which becomes a part of the trust and to invest and reinvest in stocks, bonds, mortgages, notes, mutual funds, common trust funds, or other securities or property of any kind or nature, real or personal, without being limited by any law or rule of court governing the investment of trust funds and irrespective of the extent of diversification; to exercise any conversion privilege or subscription right given to the Trustee as the owner of any security; to participate in any reorganization, merger, liquidation or other readjustment of the structure of any corporation or other organization and to receive and retain any securities or other property resulting therefrom; to cause any securities or other property to be issued, held or registered in the name of any Trustee personally, or in the name of a nominee, or in such form that title will pass by delivery; and, except to the extent inconsistent herewith, shall have those powers now or hereafter conferred by law, including in general the power to do anything for the benefit of the trust which the Trustee could do if the Trustee were the absolute owner of the trust. The foregoing powers shall continue as to the trust after it terminates and until it is fully distributed.

ARTICLE IV

(a) No person dealing with the Trustee shall be under any obligation to see to the application of any money paid to the Trustee, or to inquire into the validity or propriety of any act of the Trustee or into any of the provisions of this instrument.

(b) Legal title to the property of the trust shall be and remain vested in the Trustee from time to time acting, without any transfer by or to any retiring, incoming or continuing Trustee. The Trustee from time to time acting shall have all of the powers and discretions given to the original Trustee. No successor Trustee shall be obliged to inquire into or be in any way accountable for the previous administration of the trust.

(c) Generally, the Trustee shall have the right to exercise freely and without limitation all investment and administrative powers of an absolute owner without any restrictions to which fiduciaries are ordinarily subject,

except the duty to act in good faith and with reasonable care. The exercise in good faith of any discretion hereby conferred shall be conclusive. The Trustee shall not be required to give any bond as trustee for any purpose.

(d) Any successor Trustee shall have power to give a full release and discharge to a removed Trustee, conclusive and binding on all beneficiaries hereunder, by approving the accounts of the removed Trustee.

ARTICLE V

(a) The validity and effect of this instrument and the trusts created hereby shall be construed and governed by the laws of the State of Illinois.

(b) All references to Sections of the Code are to the Internal Revenue Code of 1954, as amended, and shall be deemed to refer to corresponding provisions of any subsequent Federal tax laws.

INSTRUMENT OF TRANSFER
NORTHWESTERN UNIVERSITY
POOLED INCOME FUND A

(Sole Beneficiary)

I hereby transfer to the Board of Trustees of Northwestern University ("Northwestern"), as Trustee of the Northwestern University Pooled Income Fund A ("Trustee") under that certain Declaration of Trust dated December 19, 1974, as it may from time to time be amended ("Trust"), to be held upon the terms and conditions set forth in this instrument and the Trust, the property described in the attached Schedule.

1. I direct that the income interest in the property transferred be paid to _____, during _____ lifetime.

2. The remainder interest payable to Northwestern upon termination of the income interest in the property transferred shall be:

(Check one)

☐ A. Used by Northwestern for its exempt purposes without restriction; or

☐ B. Used by Northwestern for the following purpose:

_____

_____

3. In consideration of the acceptance by the Trustee of the property described in the attached Schedule, I agree to pay, and to provide in my will for the payment of, any federal, state or other gift, estate, transfer, inheritance and succession tax attributable to the income interest of any beneficiary out of property other than the property described in the attached Schedule.

4. I acknowledge that prior to making this transfer I have received and read the booklet describing gifts to Northwestern University's Pooled Income Fund A dated December 19, 1974, and a copy of the Trust.

Date: _____, 197_.

_____
Donor

The Trustee hereby accepts the property described in the attached Schedule under the terms and conditions set forth in this instrument and the Trust and assigns _____ units of participation to the income interest in the property transferred.

Date: _____, 197_.

THE BOARD OF TRUSTEES OF
NORTHWESTERN UNIVERSITY

By _____

(Corporate Seal)

ATTEST:

_____

INSTRUMENT OF TRANSFER
NORTHWESTERN UNIVERSITY POOLED INCOME FUND A

(Concurrent Beneficiaries)

I hereby transfer to the Board of Trustees of Northwestern University ("Northwestern"), as Trustee of the Northwestern University Pooled Income Fund A ("Trustee") under that certain Declaration of Trust dated December 19, 1974, as it may from time to time be amended ("Trust"), to be held upon the terms and conditions set forth in this instrument and the Trust, the property described in the attached Schedule.

1. I direct that:

A. _____ (Insert fraction) of the income interest in the property transferred be paid to _____, during _____ lifetime; and thereafter to _____, during _____ lifetime if _____ survives _____; and

B. _____ (Insert fraction) of the income interest in the property transferred be paid to _____, during _____ lifetime; and thereafter to _____, during _____ lifetime if _____ survives _____

2. I reserve the right, exercisable only by my will, to revoke the income interest of any beneficiary other than Northwestern.

3. The remainder interest payable to Northwestern upon termination of the income interests in the property transferred shall be:

(Check one)

☐ A. Used by Northwestern for its exempt purposes.

☐ B. Used by Northwestern for the following purposes:

_____

_____

4. In consideration of the acceptance by the Trustee of the property described in the attached Schedule, I agree to pay, and to provide in my will for the payment of, any federal, state or other gift, estate, transfer, inheritance and succession tax attributable to the income interest of any beneficiary out of property other than the property described in the attached Schedule.

5. I acknowledge that prior to making this transfer I have received and read the booklet describing gifts to Northwestern University's Pooled Income Fund A dated December 19, 1974, and a copy of the Trust.

Date: _____, 197_.

_____
Donor

The Trustee hereby accepts the property described in the attached Schedule under the terms and conditions set forth in this instrument and the Trust and assigns _____ units of participation to the income interest in the property transferred, allocating _____ units to the share specified in 1A and _____ units to the share specified in 1B.

Date: _____, 197_.

THE BOARD OF TRUSTEES OF NORTHWESTERN UNIVERSITY

By _____

(Corporate Seal)

ATTEST:

_____

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INSTRUMENT OF TRANSFER
NORTHWESTERN UNIVERSITY
POOLED INCOME FUND A

(Successive Beneficiaries)

I hereby transfer to the Board of Trustees of Northwestern University ("Northwestern"), as Trustee of the Northwestern University Pooled Income Fund A ("Trustee") under that certain Declaration of Trust dated December 19, 1974, as it may from time to time be amended ("Trust"), to be held upon the terms and conditions set forth in this instrument and the Trust, the property described in the attached Schedule.

1. I direct that the income interest in the property transferred be paid to _____, during _____ lifetime; and thereafter to _____, during _____ lifetime if _____ survives _____.

2. I reserve the right, exercisable only by my will, to revoke the income interest of any beneficiary other than Northwestern.

3. The remainder interest payable to Northwestern upon termination of the income interest(s) in the property transferred shall be: (Check one)

☐ A. Used by Northwestern for its exempt purposes without restriction; or

☐ B. Used by Northwestern for the following purpose:

_____

4. In consideration of the acceptance by the Trustee of the property described in the attached Schedule, I agree to pay, and to provide in my will for the payment of, any federal, state, or other gift, estate, transfer, inheritance and succession tax attributable to the income interest of any beneficiary out of property other than the property described in the attached Schedule.

5. I acknowledge that prior to making this transfer I have received and read the booklet describing gifts to Northwestern University's Pooled Income Fund A dated December 19, 1974, and a copy of the Trust.

Date: _____, 197_.

_____
Donor

The Trustee hereby accepts the property described in the attached Schedule under the terms and conditions set forth in this instrument and the Trust and assigns _____ units of participation to the income interest in the property transferred.

Date: _____, 197_.

THE BOARD OF TRUSTEES OF
NORTHWESTERN UNIVERSITY

By _____

(Corporate Seal)

ATTEST:

_____

Deferred Giving Policies

Smith College

SMITH COLLEGE DEFERRED GIVING PROGRAM

The Committee on Deferred Gifts and Bequests was formed in 1971. As presently structured, the Committee is composed of two tax specialists, an insurance executive, a retired businessman, two attorneys, and two nonprofessional alumnae volunteers. Serving on the Committee in an ex officio capacity are the Chairman of the Smith College Development Council, President of the Alumnae Association, Executive Director of the Alumnae Association, Treasurer of the College, Associate Treasurer, Director of Development, and the Associate Director of Development whose primary Development Office responsibility is the management of the Deferred Giving Program. The Chairman of the Development Council and President of the Alumnae Association are members of the Board of Trustees.

The Committee is charged with overseeing the Deferred Giving Program. Recommendations passed by the Committee are forwarded through the Development Council to the Board of Trustees for consideration. The Committee also is responsible for conducting a two-day annual conference held on campus for Class Bequest Chairmen and for making information about Charitable Gift Annuities, Charitable Remainder Trusts (Unitrusts and Annuity Trusts), and the Pooled Income Fund available to alumnae who have been out of College twenty years or more.

# # # # # # # # # #

SMITH COLLEGE CHARITABLE GIFT ANNUITY

The Smith College Charitable Gift Annuity is a contractual agreement which pays the donor, another person, or both, a guaranteed fixed income for life which is backed by the total assets of the College. The rate of return is based on the annuitant's age (within six months of the nearest birthday) at the date of gift. Information concerning the tax implications of an annuity gift and suggested rates of return can be obtained from The Committee on Gift Annuities, 1865 Broadway, New York, New York 10023.

Smith College issues single life and joint and survivor annuity agreements. To enter into an annuity agreement, each annuitant and surviving beneficiary must be 60 years of age or older. The minimum amount accepted for a Smith College Charitable Gift Annuity is $5,000. New agreements can be funded, but additional contributions cannot be made to an existing agreement.

For review by a prospective donor and/or her attorney or tax consultant, the College assumes responsibility for the preparation of a personalized presentation of a Charitable Gift Annuity as it relates specifically to that individual's situation.

A Charitable Gift Annuity may be funded with cash or through the transfer of long-term appreciated securities. In the latter situation, information concerning capital gains tax will be provided at the request of the donor for review by her own advisors. (When long-term property to be used for funding has depreciated in value, prospective donors are reminded they may find it personally advantageous for Federal income tax purposes to sell the securities and remit cash proceeds for the annuity.)

Funds received for Charitable Gift Annuities become part of the general endowment during the lifetime of the annuitant. At the termination of an individual annuity contract, the remaining funds and accrued interest are applied to the purpose specified by the donor at the date of gift.

As in all situations involving an irrevocable life income arrangement, each prospective donor is urged to consult her own advisors before completing her gift.

# # # # # # # # # # #

SMITH COLLEGE SPECIMEN - Single Life Agreement

SINGLE LIFE ANNUITY AGREEMENT

This Agreement is made, in duplicate, on this _____ day of _____, 19___ by and between _____ of _____ and THE TRUSTEES OF THE SMITH COLLEGE, a corporation established under the laws of the Commonwealth of Massachusetts.

THE TRUSTEES OF THE SMITH COLLEGE acknowledge the receipt of _____ ($), and in return THE TRUSTEES OF THE SMITH COLLEGE agree to pay to said _____ for and during her natural life an annuity or yearly sum of $_____ in equal installments of $_____ each payable quarterly on the first day of February, May, August and November, the first payment to be made _____. The obligation of the said THE TRUSTEES OF THE SMITH COLLEGE to make quarterly payments shall cease with the last quarterly payment prior to the death of the said _____. This annuity is nonassignable.

Of the above amount, the sum of $_____ is the purchase price of the annuity, and the balance of $_____ is a gift to THE TRUSTEES OF THE SMITH COLLEGE.

It is understood and agreed that any net proceeds accruing to the said THE TRUSTEES OF THE SMITH COLLEGE resulting from the performance of this agreement shall be used for _____.

In witness whereof _____ has set her hand and seal and THE TRUSTEES OF THE SMITH COLLEGE has caused its corporate seal to be affixed hereto and this agreement signed in its name and behalf by its Treasurer, and thereunto duly authorized the day and the year as above written.

In presence of:

_____ Witness

_____ Donor

_____ Witness

THE TRUSTEES OF THE SMITH COLLEGE

by _____ Treasurer

_____ Donor's Social Security Number

(Seal)

SMITH COLLEGE POOLED INCOME FUND

At the direction of the Board of Trustees, the Smith College Pooled Income Fund was created June 3, 1975 by trust agreement between The Trustees of the Smith College and The Connecticut Bank and Trust Company, Trustee for the Fund. July 8, 1975, the Internal Revenue Service ruled in a private letter that information and documents submitted by the attorneys for the College with respect to the governing instrument met the requirements of a pooled income fund as defined in Section 642(c)(5) of the Code. The Fund became operational with the transfer of two charitable gifts on August 1, 1975.

The Trustee for the Smith College Pooled Income Fund assumes responsibility for the following services:

1. Receipt of contributions
2. Sale of non-cash assets as appropriate
3. Investment of contributions into the Fund through the purchase of units
4. Investment of Pooled Income Fund assets
5. Monthly valuation of the Fund
6. Determination of income to be paid to income recipients
7. Remittance of quarterly income checks to income recipients
8. Annual tax report to recipients
9. Provision for investment review and accounting of total Fund on a quarterly basis
10. Filing of appropriate government forms
11. Determination of annual rate of return for the Fund
12. Distribution of remainder at the termination of a life interest.

Representatives of the College work with individual donors, prepare and distribute promotional and technical information relating to the Fund, provide appropriate agreement forms for signature, give instructions for the transfer of assets to be used for funding, and compute for the donor the charitable contribution generated by each transfer.

SMITH COLLEGE POOLED INCOME FUND

The taxable year of the Smith College Pooled Income Fund begins November 1 and ends October 31. Because the Smith College Pooled Income Fund will not have attained a three-year history until November 1, 1977, the assumed 6% return required for a Fund having less than a three-year experience is used for the computation of the remainder interest. Beginning November 1, 1977, this percentage will be replaced by the highest rate of return earned in each previous three-year period. Factors for computing the charitable contribution are found in Table G (1) and G (2) from Treasury Regulations 1.642 (c) -6, and Table G (3), Internal Revenue Service Publication 723B, Actuarial Values I - Part B.

The minimum amount which can be accepted for an initial gift to the Smith College Pooled Income Fund is $5,000. Donors may add to their original gift by making subsequent additions in a minimum of $2,000. At the present time there is no age requirement for participation in the Fund. To date, the youngest donor was 55 years of age at the date of gift.

Each donor and/or income recipient receives written disclosure which fully and fairly describes the operation of the Fund (see copy). An annual report, prepared by the Trustee, is forwarded by the College to each participant within three and one-half months following the end of the Fund's taxable year.

It is the policy of the College to urge each prospective life income donor to review plans with her own financial advisors before completing an irrevocable gift.

# # # # # # # # # # # # # #

THE SMITH COLLEGE POOLED INCOME FUND

DISCLOSURE STATEMENT

A gift to the Smith College Pooled Income Fund is one way to provide long-range support for the College while retaining a life income for the donor and/or other beneficiaries. Such a gift, while preserving income, will result in current federal tax benefits and will save estate taxes. This brochure describes the operation of the Smith College Pooled Income Fund only, but information concerning other forms of life income gifts may be obtained from the College.

An alumna, parent, or friend can make a gift to Smith College that pays income for life by irrevocably transferring cash or marketable securities to the Fund.

Such gifts will be commingled and invested with the gifts of others who have made similar life income gifts. Each gift receives its share of the Pooled Income Fund's earnings each year, but the rate of income cannot be guaranteed. The amount received by income beneficiaries will depend on the Fund's earnings each year. Upon the termination of the income interest, the beneficiary's share of the Fund principal will be severed from the Fund and transferred to Smith College to be used for endowment, scholarship assistance, or other suitable purpose previously specified by the donor.

The Fund was created by a Trust Agreement between The Trustees of the Smith College and The Connecticut Bank and Trust Company. The Trustee of the Fund is now The Connecticut Bank and Trust Company, but The Trustees of the Smith College retain the right to change the Trustee at any time. The Trustee's administrative policies are enumerated in paragraph 8 of the Trust Agreement, a copy of which is set forth as Appendix A.

Smith College presently intends to pay the Trustee's compensation and all management, legal, custodial and like fees incurred in administering the Fund to the extent that these expenses exceed 6/10th of 1% of the assets of the Fund. The 6/10th of 1% fee will be charged half to the principal of the Fund and half to income. The College reserves the right to discontinue paying such expenses and to have such expenses paid out of the Fund. The College also reserves the right to change the allocation of such expenses so long as any such change does not disqualify the Fund.

THE TRUSTEE AND INVESTMENT POLICY

The Connecticut Bank and Trust Company, a Connecticut State banking institution with its main office in Hartford, Connecticut, ranks among the largest commercial banks in New England, as well as in the country. Its Trust Division, staffed by 350 personnel, has full responsibility for the

investment of assets totaling in the neighborhood of $2 billion. Of this amount, approximately 60% represents personal trust and agency assets, with the remainder divided between employee benefit funds and institutional endowment and charitable remainder trust funds. Responsibility for this latter category of funds is assigned to an Institutional Department which manages the assets of over 200 charitable organizations throughout the United States, including numerous hospitals, churches, colleges, universities, schools, libraries, museums, and over 400 charitable trusts and private foundations.

The investment objective of the Fund is to seek current income as well as long-term growth of both income and principal. There can be no assurance that any particular results will be achieved. The Fund's income and the value of its assets will necessarily fluctuate with changes in economic and market conditions.

Securities transferred to the Fund may be sold or retained as investments at the discretion of the Trustee. The Fund will not include property transferred under arrangements other than those specified in the Trust Agreement pursuant to Section 642(c)(5) of the Internal Revenue Code of 1954, or corresponding provisions of any subsequent Federal tax law. However, the Trust Agreement provides that all or any portion of the Fund may be invested or reinvested jointly with other property not a part of the Fund which is held by or for the use of Smith College. When such joint investment or reinvestment occurs, detailed accounting records will be maintained by the Trustee of the Fund, specifically identifying the portion of the total Fund which is owned by the Fund and the income earned by and attributable to such portion.

Property transferred to the Fund may not include securities producing income which is exempt from Federal income taxes, and the Trustee of the Fund will not accept or invest in such securities as part of the Fund.

The Trustee is not required to post a bond. Smith College will always exercise control, directly or indirectly, over the Fund.

FORM OF GIFTS TO THE FUND

A donor making an irrevocable transfer of property to the Fund must retain for life an income interest in such property, or create an income interest for the life of one or more beneficiaries. Each beneficiary must be living at the time the property is transferred to the Fund, and must be designated by the donor at that time. A donor may reserve the right to revoke by Will the income interest of a survivor beneficiary, but cannot designate a substitute.

Specimen forms to be followed in making a present transfer to the Fund are set forth as Appendix B.

DIVISION OF FUND INTO UNITS

The Fund is divided into units. Each donor's gift receives a proportionate interest in the Fund represented by the number of units allocated to the gift based on the fair market value of the gift on the date it enters the Fund. The value of a unit in the Fund is determined by dividing the fair market value of all property in the Fund by the number of units then in the Fund.

The Fund's assets are valued on the first day of each month. Gifts that enter the Fund on other than a valuation date will be assigned units based on the value of a unit on the succeeding valuation date.

Once determined, the number of units assigned to each life income gift will not change, but the value of those units will reflect changes in the value of the Fund's assets.

PAYMENT OF INCOME

Income beneficiaries will receive their proportionate share of the annual income earned by the Fund, payable quarterly on or about January 31, April 30, July 31, and October 31.

Annual income does not include gains or losses from the sale of securities, or stock dividends, splits, or similar distributions. It cannot be predicted what the income in any year will be.

TAX CONSIDERATIONS

Smith College received a ruling from the Internal Revenue Service dated July 8, 1975, stating that the Fund qualifies as a "pooled income fund" described in Section 642(c)(5) of the Internal Revenue Code.

While the following general information relating to Federal tax considerations has been reviewed by the counsel for the College and is believed to be correct under present law, prospective donors to the Fund are urged to consult their own financial advisors with respect to individual situations and the tax laws of the states in which they reside.

(A) Income Tax

A gift to the Fund will generate a Federal income tax charitable contribution deduction for the value of the remainder interest (the College's right to receive the remainder of the gift at the death of the income beneficiary). The deduction is based on the initial fair market value of the assets transferred, Treasury tables, the age and sex of each income beneficiary, and the highest rate of return earned by the Fund in the previous three years. (Until the Fund has achieved a three-year experience, an assumed 6% rate of return will be used for the purpose of computing the deduction.)

If a gift to the Fund is made with long-term appreciated securities, the charitable contribution is deductible for Federal income tax purposes in an amount up to 30% of the donor's adjusted gross income for the year. If the gift is made in cash, the charitable contribution will be deductible up to 50% of adjusted gross income. In either event, if the percentage limitation makes it impossible to deduct in one tax year the full amount of this and other charitable gifts made during the year, the excess contribution may be carried forward to generate Federal income tax savings (still subject to the percentage limitation) for as many as five additional tax years, or until it has been exhausted -- whichever comes first.

If the gift is made with short-term appreciated securities, the cost basis of the securities rather than their fair market value will be used in computing the charitable contribution, but the amount of the gift will be deductible up to 50% of adjusted gross income ceiling.

(B) Capital Gains

A donor transferring appreciated securities to the Fund will not incur capital gains tax on their appreciated value. Therefore, by transferring low-cost, low-yield securities to the Fund, it is possible to change investments and achieve the benefit of greater diversification (possibly increasing the overall rate of return) without paying capital gains tax.

Gains on sales of long-term appreciated securities made by the Trustee are not taxed to the Fund. There can be a capital gain only on the sale by the Trustee of short-term securities. In this case, the capital gains tax is paid by the Fund itself.

(C) Gift Tax

A gift of the remainder interest to Smith College is not subject to Federal gift tax, but a gift tax return must be filed. The designation of an income beneficiary other than the donor may create a gift which is subject to gift tax on the actuarial value of the beneficiary's life interest. Whether the

gift will be taxable depends upon the availability of the $3,000 annual exclusion, the possibility of gift splitting with a spouse, and the extent to which the credit against gift tax has been used. In the case of a survivor beneficiary, the donor can reserve the right, exercisable only by Will, to revoke the survivor's life interest and, in that instance, no taxable gift is made to the beneficiary.

(D) Estate Tax

If the life income agreement is for the donor's life alone, the full amount of the life income gift (as of the date of death) will be free from Federal estate tax. If there is a survivor beneficiary (and the donor is the first to die), only the value of the survivor's life interest is subject to tax in the donor's estate. The value of that interest will be computed on the basis of the survivor's age at the time of the donor's death. However, if the survivor beneficiary predeceases the donor, no part of the life income gift will be taxed to the donor's estate.

The value of the College's remainder interest qualifies for the estate tax charitable deduction and is never taxable.

(E) Beneficiary's Income Tax

Payments to beneficiaries from the Fund are reportable by them as ordinary income for Federal income tax purposes.

(F) Taxation of the Fund

The Fund itself ordinarily will pay no income tax, except to the extent of short-term capital gains.

NO SECURITY REGISTRATION

No registration with respect to the Fund has been made under any Federal or State securities laws. The staff of The Securities and Exchange Commission issued a "no action" letter upon application of the American Council on Education with respect to pooled income fund trusts in general, stating that the staff would not recommend that the commission take any action if pooled income fund trusts meeting the conditions stated in the no action letter and the interest of beneficiaries therein are not registered under various Federal securities laws, provided that each prospective donor receives written disclosure which fully and fairly describes the operation of the Fund.

MISCELLANEOUS

Each participant in the Fund will receive an annual report concerning the operation of the Fund for the prior year within three and one-half months after the end of the fiscal year.

Connecticut law will govern the validity, construction, and effect of the Trust Agreement.

Smith College has the power to amend the Trust Agreement as may be necessary to ensure continued qualification as a Pooled Income Fund.

To obtain additional information concerning gifts to the Smith College Pooled Income Fund, please write to the Secretary of the Committee on Deferred Gifts and Bequests, 33 Elm Street, Northampton, Massachusetts 01063, or telephone collect at (413) 584-2700 - Ext: 2228.

* * * * * * * * * * *

Revised - January 1977

ANNUAL REPORT

SMITH COLLEGE

POOLED INCOME FUND

	Fiscal Year Ended	
Assets	**October 31, 1975***	**October 31, 1976**
Original Gift Value *	$ 15,235.74	$ 35,336.74
Market Value	$ 15,576.06	$ 39,191.54
Units Outstanding	1,523.5740	3,481.6960
Unit Value	$10.22336820	$11.25645087
Number of Participants	2	5
Income		
Income Earned - Interest	$215.08	$1,869.53
- Dividends	22.65	420.71
Total	$237.73	$2,290.24
Expenses - Trustee's Fee **	1.59	75.57
Net Income Earned & Distributed	$236.14 *	$2,214.67
Unit income for full year	N/A	$ 0.703
Official Rate of Return	6.284284% *	6.6081462%

*First year of Pooled Income Fund--income for one quarter of year only - rate of return is annualized.

**One-half of total fee is charged to income--an equal amount is charged to principal.

Computation of Rate of Return

A. Average Fair Market Value

8/1	$115,235.74	Total $342,283.71
9/1	114,064.48	Avg. 114,094.57
10/1	112,983.49	

B. Corrective Term Adjustment

$$(1 - 92/365) \times \$1,786.08 = \$1,335.89$$

C. Rate of Return

$$\frac{\text{Income Earned 8/1/75 to 10/31/75} = \$1,786.08}{\text{Avg. F.M.V (\$114,094.57)} - \text{C.T.A. (\$1.335.89)}} = .01583984$$

$$\text{period rate of return } (.01583984) \times \frac{\text{days in year}}{\text{days in period}} \left(\frac{365}{92} \right) = .0628428$$

Annualized Rate of Return = 6.284284%

◆CBT
TRUST DIVISION

PORTFOLIO SUMMARY

ACCOUNT 40796522 PAGE
DECEMBER 31, 1976

THE CONNECTICUT BANK & TRUST CO
TRUST UNDER AGREEMENT WITH
SMITH COLLEGE

ADMINISTRATION HOLLINGS
INVESTMENT MELVIN

DESCRIPTION	INVENTORY VALUE	-- MARKET VALUE -- TOTAL	% OF CATEGORY	% OF TOTAL	ANNUAL INCOME	CURRENT YIELD
BONDS						
U S GOVERNMENT	74,867.19	81,179	76.3	47.5	6,375	7.9
OTHER CORPORATE	23,218.75	25,218	23.7	14.8	1,938	7.7
TOTAL BONDS	98,085.94	106,397	100.0	62.3	8,313	7.8
COMMON STOCK						
BANK	2,905.00	2,812	6.7	1.6	100	3.6
CONSUMER STAPLES	6,460.00	8,017	19.0	4.7	357	4.5
ELECTRICAL & ELECTRONIC	4,212.75	4,947	11.7	2.9	227	4.6
ENERGY	3,693.75	4,162	9.8	2.4	300	7.2
INSURANCE	3,077.00	5,475	13.0	3.2	264	4.8
OFFICE EQUIPMENT	3,843.32	12,281	29.1	7.2	396	3.2
UTILITY	3,435.00	4,445	10.5	2.6	266	6.0
OTHER CATEGORIES	122.50	132	0.3	0.1	00	.0
TOTAL COMMON STOCK	27,749.32	42,271	100.0	24.8	1,910	4.5
TOTAL LONG TERM INVESTMENTS	125,835.26	148,668		87.1	10,223	6.9
COMMERCIAL PAPER	8,000.00	8,000	36.3	4.7	378	4.7
SAVINGS	4,800.00	4,800	21.8	2.8	240	5.0
PRINCIPAL CASH	9,264.35	9,264	42.0	5.4		

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CBT
TRUST DIVISION

PORTFOLIO SUMMARY

ACCOUNT 40796522 PAGE
DECEMBER 31, 1976

THE CONNECTICUT BANK & TRUST CO
TRUST UNDER AGREEMENT WITH
SMITH COLLEGE

ADMINISTRATION HOLLINGS
INVESTMENT MELVIN

DESCRIPTION	INVENTORY VALUE	-- MARKET VALUE -- TOTAL	% OF CATEGORY	% OF TOTAL	ANNUAL INCOME	CURRENT YIELD
TOTAL SHORT TERM INVESTMENTS	22,064.35	22,064	100.0	12.9	618	2.8
TOTAL INVESTMENTS	147,899.61	170,732		100.0	10,841	6.3

II-C-15

◆CBT
TRUST DIVISION

PORTFOLIO REVIEW

ACCOUNT 40796522 PAGE 1
DECEMBER 31, 1976

THE CONNECTICUT BANK & TRUST CO
TRUST UNDER AGREEMENT WITH
SMITH COLLEGE

ADMINISTRATION HOLLINGS
INVESTMENT MELVIN

DESCRIPTION	UNITS	INVENTORY VALUE	MARKET VALUE UNIT	MARKET VALUE TOTAL	INCOME- TOTAL	CURRENT YIELD
BONDS						
U S GOVERNMENT						
USA TREAS NOTES 8.125% MATURING 08-15-82	25,000	24,781.25	108.094	27,023	2,031	7.5
FEDERAL HOME LOAN BANK 8.625% MATURING 02-25-82	25,000	25,085.94	108.50	27,125	2,156	7.9
FEDERAL NATL MTG ASSN 8.75 % MATURING 09-10-80	25,000	25,000.00	108.125	27,031	2,188	8.1
TOTAL		74,867.19		81,179	6,375	7.9
OTHER CORPORATE						
GENERAL MOTORS ACCEPTANCE CORP DEB REG 7.75 % MATURING 10-01-94	25,000	23,218.75	100.875	25,218	1,938	7.7
TOTAL BONDS		98,085.94		106,397	8,313	7.8
COMMON STOCK						
BANK						
J P MORGAN & CO INC	50	2,905.00	56.25	2,812	100	3.6

II-C-16

◆CBT
TRUST DIVISION

DESCRIPTION	UNITS	INVENTORY VALUE	MARKET VALUE UNIT	MARKET VALUE TOTAL	INCOME- TOTAL	CURRENT YIELD
CONSUMER STAPLES						
AVON PRODUCTS INC	80	3,185.00	49.50	3,960	160	4.0
R J REYNOLDS INDUSTRIES INC	60	3,275.00	67.625	4,057	197	4.9
TOTAL		6,460.00		8,017	357	4.5
ELECTRICAL & ELECTRONIC						
MAYTAG CO	100	2,851.00	35.50	3,550	175	4.9
R C A CORP	52	1,361.75	26.875	1,397	52	3.7
TOTAL		4,212.75		4,947	227	4.6
ENERGY						
TEXACO INC	150	3,693.75	27.75	4,162	300	7.2
INSURANCE						
U S FIDELITY & GUARANTY	100	3,077.00	54.75	5,475	264	4.8
OFFICE EQUIPMENT						
INTL BUSINESS MACHINES CORP	44	3,843.32	279.125	12,281	396	3.2
UTILITY						
AMER TEL & TEL CO	70	3,435.00	63.50	4,445	266	6.0

II-C-17

CBT
TRUST DIVISION

DESCRIPTION	UNITS	INVENTORY VALUE	MARKET VALUE UNIT	MARKET VALUE TOTAL	INCOME- TOTAL	CURRENT YIELD
OTHER CATEGORIES						
FACET ENTERPRISES INC	20	122.50	6.625	132		0.0
TOTAL COMMON STOCK		27,749.32		42,271	1,910	4.5
COMMERCIAL PAPER						
GENERAL ELECTRIC VARIABLE NOTE 4.73 % MATURING 00-00-00	8,000	8,000.00	100.00	8,000	378	4.7
SAVINGS						
CONN BANK & TRUST SAVINGS		4,800.00		4,800	240	5.0
PRINCIPAL CASH		9,264.35		9,264		
TOTAL INVESTMENTS		147,899.61		170,732	10,841	6.3

II-C-18

◆CBT
TRUST DIVISION

MATURITY SCHEDULE

ACCOUNT 40796522
DECEMBER 31. 1976

THE CONNECTICUT BANK & TRUST CO
TRUST UNDER AGREEMENT WITH
SMITH COLLEGE

ADMINISTRATION HOLLINGS
INVESTMENT MELVIN

DUE IN YEAR	PAR VALUE	PERCENT OF TOTAL
1976	—	—
1977	—	—
1978	—	—
1979	—	—
1980	25.000	25.00
1981	—	—
1982	50.000	50.00
1983	—	—
1984	—	—
1985	—	—
1986	—	—
1987	—	—
1988	—	—
1989	—	—
1990	—	—
1991	—	—
1992	—	—
1993	—	—
1994	25.000	25.00
1995	—	—
1996	—	—
1997	—	—
1998	—	—
1999	—	—
2000	—	—
TOTAL	100.000	100.00

II-C-19

THE SMITH COLLEGE POOLED INCOME FUND PLAN
CREATED BY AGREEMENT BETWEEN
SMITH COLLEGE AND THE CONNECTICUT BANK AND TRUST COMPANY

TRUST AGREEMENT between **THE TRUSTEES OF THE SMITH COLLEGE**, a charitable corporation established at Northampton in the Commonwealth of Massachusetts (hereinafter sometimes called the "College"), and **THE CONNECTICUT BANK AND TRUST COMPANY**, located at One Constitution Plaza, Hartford, Connecticut (hereinafter sometimes called the "Trustee").

WHEREAS, the College desires to establish a pooled income fund within the meaning of Section 642(c)(5) of the Internal Revenue Code of 1954 ("Code") and the regulations thereunder for the management and investment of property transferred by Donors contributing irrevocable remainder interests in property to the College and retaining life interests for the life of one or more beneficiaries living at the time of the transfer.

THEREFORE, the College designates The Connecticut Bank and Trust Company as Trustee of the Smith College Pooled Income Fund ("Fund") which shall be administered under the terms of this Agreement (hereinafter sometimes called the "Plan") as follows:

1. Gifts to the Fund. Each Donor transferring property ("Life Income Gift") to the Fund shall do so under a form of Life Income Agreement, specimen copies of which are annexed, and shall contribute an irrevocable remainder interest in such property to the College.

2. Retention of life income interest. Each Donor transferring property to the Fund shall retain a life income interest for the life of one or more beneficiaries (which may include himself) living at the time of the transfer.

3. Taxable year. The first taxable year of the Fund shall start on the date of the first two transfers to the Fund and shall end on the succeeding October 31. Subsequent taxable years shall begin on November 1 and end on October 31.

4. Division of Fund into Units. The Fund shall be divided into units and the proportionate interest of each Donor's Life Income Gift shall be represented by the number of units allocated to it, based on the fair market value of each Donor's Life Income Gift on the date it enters the Fund. The original unit of participation shall be $10. When new Life Income Gifts are added to the Fund, the number of units shall be increased accordingly. The number of units assigned to each new Life Income Gift which is transferred to the Fund on a valuation date shall be determined by dividing the fair market value of the new Life Income Gift on the date it is transferred to the Fund by the fair market value of each existing unit in the Fund at the time of the transfer.

The fair market value of each existing unit in the Fund at the time of the transfer of a new Life Income Gift shall be determined by dividing the fair market value of all property in the Fund at such time by the number of units then in the Fund. The value of each unit in the Fund will fluctuate with each new transfer of a Life Income Gift to the Fund in relation to the appreciation or depreciation in the fair market value of the Fund's property, but all units in the Fund will always have equal value.

The number of units assigned to each new Life Income Gift which is transferred to the Fund on other than a valuation date shall be based on the fair market value of the property in the Fund on the valuation date immediately succeeding the date of transfer. For purposes of determining such value, the value on such succeeding date of any property transferred to the Fund between the preceding valuation date and such succeeding date, or on such succeeding date, shall be excluded.

5. Valuation. The Fund's assets shall be valued on the first day of each month. The Fund's assets shall also be valued on the first day of the first taxable year. In computing the fair market value of the Fund's assets there shall be taken into account all accrued assets and liabilities. The amount of any income earned by or accrued to the Fund but not yet distributed on a valuation date shall be excluded from the Fund's fair market value. All determinations of the fair market value of Life Income Gifts added to the Fund, of the Fund's assets and of Life Income Gifts to be withdrawn from the Fund shall be consistent with customary fiduciary accounting practices and any United States Treasury requirements governing pooled income funds. In any conflict, Treasury requirements shall prevail over customary fiduciary accounting practices and any inconsistent provisions of this Plan.

6. Allocation and Distribution of Income. The amount of income allocable to each unit in the Fund shall be determined by dividing the net income of the Fund (as determined under Code Section 643(b) and the regulations thereunder) for the taxable year by the outstanding number of units in the Fund at the end of such year. Income shall be allocated to units outstanding during only part of such year by taking into consideration the period of time such units are outstanding during such year, provided that units attributable to Life Income Gifts entering the Fund on other than a valuation date shall begin to earn their share of the Fund's income on the first day of the month succeeding such entry. The net income of the Fund shall be determined on an accrual basis. Income allocated to each income beneficiary's units in the Fund shall be distributed to such beneficiary quarterly on the basis of income accrued and received. The apportionment of income for each quarter shall be determined at the end of each quarter and income for each quarter shall be distributed currently. Adjusting payments, if necessary, will be made during the taxable year or within 65 days following its close to bring the total payment to the actual income to which each beneficiary is entitled.

7. Withdrawal of Life Income Gifts by the Trustee. At the first valuation date following the death of the last income beneficiary entitled to receive income from a Life Income Gift, the Trustee shall withdraw from the Fund and pay to the College to be used as designated by the Donor an amount equal to the total fair market value of that Life Income Gift's units in the Fund valued as of the valuation date next following the termination of that Life Income Gift's income interest. This amount shall be determined by multiplying the value per unit (the then total fair market value of the Fund divided by the total units then outstanding) by the number of units to be withdrawn. If at the time of such withdrawal of the remainder interest, the College is not a public charity (an organization described in clauses (i) to (vi) of Code Section 170(b)(1)(A)) the remainder interest shall be transferred to one or more public charities selected by the College and in such shares as it shall determine.

8. Investment Powers and Duties.

A. Commingling of Property. The Trustee shall commingle, invest, and reinvest the Life Income Gift transferred to the Fund by each Donor with all other property transferred by other Donors who have made or make similar transfers satisfying the requirements of Code Section 642(c)(5) and the regulations thereunder. The Fund shall include only amounts received from transfers which meet such requirements. Pursuant to the authority of Treasury Regulation Section 1.642(c)-5(b)(3), the College intends to invest certain of its own funds under the provisions of this Agreement. In such case, the Trustee shall maintain records which clearly identify the portions of the total Fund attributable to the College's property and the income attributable to such portion.

B. Investments. The Trustee is authorized to retain or sell the property transferred to the Fund and may invest and reinvest the Fund in any kind of property without diversification as to kind or amount and without regard to the limitations imposed by law on investments, except as hereinafter provided.

C. Investment Restrictions. The Trustee may not accept or invest in securities the income from which is exempt from Federal income tax (under subtitle A of the Code), interests in real estate investment trusts or organizations similarly treated under the Code, depreciable real or personal property, wasting assets, or in any property which would in any way result in the denial of any charitable contribution deduction to which Donors to the Fund (and their estates) may be entitled under the Code.

D. Investment in Common Trust Fund. The Trustee is authorized to place the Fund's assets in one or more of its common trust funds to which Code Section 584 applies, provided that such common trust funds do not contain any securities the income from which is exempt from tax or any debt or equity securities issued by the Trustee.

E. General Powers. The Trustee shall have the following powers in addition to those herein granted or conferred on it by law:

(1) To sell, exchange or otherwise dispose of any Fund property at either public or private sale, for cash or on credit; to exchange any such property and to grant options for the purchase thereof without any limitation on the period of any such option.

(2) To consent to and participate in, or to oppose, any foreclosure, liquidation or plan of reorganization, consolidation, merger, combination or other similar plan and to consent to any contract, lease, mortgage, purchase, sale or other action by any other corporation pursuant to such plan.

(3) To deposit any Fund property with any protective, reorganizational or similar committee, to delegate discretionary power thereto, to pay part of its expenses and compensation and any assessments levied with respect to such property.

(4) To exercise all conversion, subscription, voting and other rights of whatsoever nature pertaining to any such Fund property and to grant proxies, discretionary or otherwise, with respect thereto.

(5) To extend the time of payment of any obligation held hereunder and to compromise, settle or submit to arbitration or to release any claim in favor of or against the Fund property.

(6) To register and hold any Fund property in the name of a nominee and the liability of the Trustee shall be neither increased nor decreased thereby.

(7) To do all such acts, take all such proceedings and exercise all such rights and privileges, although not hereinbefore specifically mentioned with respect to any such Fund property as if the absolute owner thereof and in connection therewith to make, execute and deliver any instruments and to enter into any covenants or agreements binding the trust hereunder; provided that the Trustee shall take no such actions as shall violate the provisions of Code Section 642(c)(5) and the regulations thereunder.

9. Additional Restrictions. The Trustee is prohibited (except for the payment of income to income beneficiaries of the Fund) from engaging in any act of self-dealing as defined in Code Section 4941(d), from retaining any excess business holdings as defined in Code Section 4943(c) which would subject the Fund to tax under Section 4943, from making any investments which would subject the Fund to tax under Code Section 4944 and from making any taxable expenditures as defined in Code Section 4945(d). If Code Section 4942 is deemed applicable to the Fund by reason of Code Section 508(e) or otherwise, the Trustee shall distribute the Fund's

income for each taxable year at such time and in such manner as not to subject the Fund to tax under Section 4942. No Donor or income beneficiary (other than the College) of a Life Income Gift may be a trustee of the Fund nor shall any Donor or income beneficiary (other than the College) have, directly or indirectly, general responsibilities with respect to the Fund which are ordinarily exercised by a trustee.

10. Principal and Income Allocation. The following shall during each taxable year be allocated to and permanently set aside as part of the Fund principal and shall not be paid as income: (1) gains from the sale, exchange, redemption or other disposition of any investments; (2) stock dividends; (3) capital gains dividends of regulated investment companies; and (4) liquidating distributions. Any amounts received from the sale of options which are not exercised by the optionee shall be allocated to the Fund income. Any losses from the sale, exchange, redemption or other disposition of any investments shall be allocated to the Fund principal. If interest-bearing securities are acquired at a premium over par or other stated value, the Trustee shall not be required to amortize the premium from income.

11. Change of Trustee. The College retains the right at any time, upon thirty days written notice, to remove the Trustee (or any successor Trustee designated by the College) from its duties and obligations under this Agreement. The Trustee (or any successor Trustee) may resign from its duties and obligations under this Agreement at any time upon one hundred eighty days written notice.

    Upon such removal or resignation, the College shall appoint a successor trustee or shall take the Fund property and administer and invest it itself as Trustee. Upon written notice of the identity of the successor trustee, the then Trustee shall assign, transfer and pay over to such successor trustee the property then constituting the Fund. Any successor trustee shall have the rights, powers and duties of the original Trustee under this Agreement.

12. Compensation of Trustee. The compensation of the Trustee, or any successor corporate trustee, shall be determined from time to time by agreement in writing between the College and the Trustee or such successor Trustee, as the case may be. If the College shall serve as Trustee, it may charge reasonable Trustee's fees and incur expenses for investment management, custodian and similar fees.

13. Incorporation by Reference. This Agreement may be, and is intended to be, incorporated by reference in any Will, trust, or other instrument whereby property is transferred to the Fund and an income interest is retained or created for the life of one or more named beneficiaries. Any property transferred to the Fund by Will or otherwise whereby an income interest is retained or created for the life of one or more named beneficiaries, where this Agreement is not incorporated by reference, shall

become a part of the Fund and be held, managed and distributed under the terms of this Agreement unless the Will or other instrument of transfer is inconsistent with such action.

14. Limited Right of Amendment. The College shall have the power, acting alone, to amend the Plan and agreements under which Life Income Gifts have been transferred to the Fund in any manner required for the sole purpose of insuring that the Fund qualifies as a pooled income fund within the meaning of Code Section 642(c)(5) and the regulations thereunder.

15. Governing Law. This Agreement is made pursuant to, shall be interpreted in accordance with, and be governed by, the laws of the State of Connecticut. However, in any conflict with Code Section 642(c)(5) and the regulations thereunder, that Code section and the regulations shall govern.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the 3rd day of June, 1975.

THE TRUSTEES OF THE SMITH COLLEGE

By: _____

(Seal)

THE CONNECTICUT BANK AND TRUST COMPANY

By: _____

(Seal)

ATTEST:

_____

SMITH COLLEGE
LIFE INCOME AGREEMENT, POOLED FUND: ONE-LIFE
(THE CONNECTICUT BANK AND TRUST COMPANY
SERVING AS TRUSTEE)

AGREEMENT made the day of , 19 , between JANE DOE residing at 100 Main Street, Northampton, Massachusetts ("Donor") and THE CONNECTICUT BANK AND TRUST COMPANY, located at One Constitution Plaza, Hartford, Connecticut ("Trustee").

1. The Donor transfers and delivers to the Trustee as trustee of the Smith College Pooled Income Fund ("Fund") the property described in the annexed Schedule "A", having a total net fair market value of $10,000 ("Life Income Gift").

2. The Donor's Life Income Gift will be commingled with the life income gifts of other donors, who have made or make similar transfers, and will be managed and invested under the terms of the Smith College Pooled Income Fund Plan ("Plan") as created by a certain Agreement between The Trustees of The Smith College and the Trustee dated June 3 , 1975. A copy of the Plan is annexed and made part hereof.

3. (A) During the Donor's lifetime, the Trustee shall pay her her proportionate share of the Fund's income quarterly.

(B) Upon the Donor's death, this agreement shall terminate and the interest in the Fund attributable to the Donor's units shall become the absolute property of The Trustees of The Smith College. An amount equal to the value of Donor's units shall be withdrawn by the Trustee as provided in the Plan and shall be paid to the College to be used by it (for its general purposes) (Donor may also designate specific purposes) provided it is a purpose specified in Internal Revenue Code Section 170(c). The Trustee's obligation to pay income to the Donor shall end with the regular periodic payment date next preceding her death and any income earned by Donor's units in the quarter in which she dies shall be paid by the Trustee to the College at the first regular payment date after Donor's death to be used by it for the purpose designated by the Donor, provided it is a purpose specified in Internal Revenue Code Section 170(c).

4. The Donor may, from time to time, add property acceptable to the Trustee to the Fund.

5. No bond or other security shall be required of the Trustee in any jurisdiction.

6. No estate, inheritance or other death taxes with respect to the interest in the Fund attributable to the Donor's units shall be allocated to or recoverable from such interest and the Donor agrees not to make any inconsistent directions in her Will.

7. This Agreement is irrevocable. It is made pursuant to, and shall be interpreted in accordance with, the laws of the State of Connecticut. However, in any conflict with Internal Revenue Code Section 642(c)(5) and the regulations thereunder, that Code section and the regulations shall govern.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the date first above written.

_____ (L.S.)
JANE DOE, Donor

THE CONNECTICUT BANK AND TRUST COMPANY

By: _____

(Seal)

(Add appropriate acknowledgements and Schedule "A")

SMITH COLLEGE
LIFE INCOME AGREEMENT, POOLED FUND: TWO-LIVES
(FUNDED WITH DONOR'S SEPARATE PROPERTY)
(THE CONNECTICUT BANK AND TRUST COMPANY SERVING AS TRUSTEE)

AGREEMENT made the day of , 19 , between JANE DOE residing at 100 Main Street, Northampton, Massachusetts ("Donor") and THE CONNECTICUT BANK AND TRUST COMPANY, located at One Constitution Plaza, Hartford, Connecticut ("Trustee").

1. The Donor transfers and delivers to the Trustee as trustee of the Smith College Pooled Income Fund ("Fund") the property described in the annexed Schedule "A", having a total net fair market value of $10,000 ("Life Income Gift").

2. The Donor's Life Income Gift will be commingled with the life income gifts of other donors, who have made or make similar transfers, and will be managed and invested under the terms of the Smith College Pooled Income Fund Plan ("Plan") as created by a certain Agreement between The Trustees of The Smith College and the Trustee dated June 3 , 1975. A copy of the Plan is annexed and made part hereof.

3. (A) During the Donor's lifetime, the Trustee shall pay her her proportionate share of the Fund's income quarterly.

(B) If the Donor's husband JOHN DOE (hereinafter called the "Survivor Beneficiary") survives the Donor, the Trustee shall make the payments provided by paragraph 3(A) to the Survivor Beneficiary for life, the first payment to be made on the next quarterly payment date after the Donor's death. There shall be no payment to Donor's estate for any amounts which have accrued since the last payment received by her.

(C) Upon the death of the survivor of the Donor and the Survivor Beneficiary, this agreement shall terminate and the interest in the Fund attributable to the Donor's units shall become the absolute property of The Trustees of the Smith College. An amount equal to the value of the Donor's units shall be withdrawn by the Trustee as provided in the Plan and shall be paid to the College to be used by it (for its general purposes) (Donor may also designate specific purposes) provided it is a purpose specified in Internal Revenue Code Section 170(c). The Trustee's obligation to pay income shall end with the regular periodic payment date next preceding the death of the survivor of the Donor and the Survivor Beneficiary and any income earned by Donor's units in the quarter of the death of the survivor of the Donor and the Survivor Beneficiary shall be paid by the Trustee to the College at the first regular payment date after the death of the survivor of the Donor and the Survivor Beneficiary to be used by it for the above described purpose.

(D) Notwithstanding any of the foregoing provisions, the Donor may, by her Will, revoke the income payments for the Survivor Beneficiary, in which event the Trustee's obligation to make the income payments shall terminate with the regular payment date next preceding the Donor's death and an amount equal to the value of the Donor's units in the Fund shall become the absolute property of the College, shall be withdrawn as provided in the Plan and be paid by the Trustee to the College to be used by it for the above described purpose. In such case, any income earned by Donor's units in the quarter in which the Donor dies shall be paid by the fund to the College at the first regular payment date after the Donor's death to be used for the above described purpose.

4. The Donor may, from time to time, add property acceptable to the Trustee to the Fund.

5. No bond or other security shall be required of the Trustee in any jurisdiction.

6. No estate, inheritance or other death taxes with respect to the interest in the Fund attributable to the Donor's units shall be allocated to or recoverable from such interest and the Donor agrees not to make any inconsistent directions in her Will.

7. This Agreement is irrevocable. It is made pursuant to, and shall be interpreted in accordance with, the laws of the State of Connecticut. However, in any conflict with Internal Revenue Code Section 642(c)(5) and the regulations thereunder, that Code section and the regulations shall govern.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the date first above written.

_____ (L.S.)
JANE DOE, Donor

THE CONNECTICUT BANK AND TRUST COMPANY

By: _____

(Seal)

(Add appropriate acknowledgements and Schedule "A")

SMITH COLLEGE
LIFE INCOME AGREEMENT, POOLED FUND:
TWO-LIVES - JOINT AND SURVIVOR
(FUNDED WITH JOINTLY OWNED PROPERTY)
(THE CONNECTICUT BANK AND TRUST COMPANY SERVING AS TRUSTEE)

AGREEMENT made the day of , 19 , between JOHN DOE and JANE DOE, both residing at 100 Main Street, Northampton, Massachusetts ("Donors") and THE CONNECTICUT BANK AND TRUST COMPANY, located at One Constitution Plaza, Hartford, Connecticut ("Trustee").

1. The Donors transfer and deliver to the Trustee as trustee of the Smith College Pooled Income Fund ("Fund") the property described in the annexed Schedule "A", having a total net fair market value of $10,000 ("Life Income Gift").

2. The Donors' Life Income Gift will be commingled with the life income gifts of other donors, who have made or make similar transfers, and will be managed and invested under the terms of the Smith College Pooled Income Fund Plan ("Plan") as created by a certain Agreement between The Trustees of the Smith College and the Trustee dated June 3 , 1975. A copy of the Plan is annexed and made part hereof.

3. (A) During the lifetimes of the Donors, the Trustee shall pay to them jointly, and then to the survivor for life, their Life Income Gift's proportionate share of the Fund's income quarterly.

(B) Upon the death of the survivor of the Donors this agreement shall terminate and the interest in the Fund attributable to the Donors' units shall become the absolute property of The Trustees of the Smith College. An amount equal to the value of the Donors' units shall be withdrawn by the Trustee as provided in the Plan and paid to the College to be used by it (for its general purposes) (Donors may also designate specific purposes) provided it is a purpose specified in Internal Revenue Code Section 170(c). The Trustee's obligation to pay income to the Donors shall end with the regular periodic payment date next preceding the death of the survivor of the Donors and any income earned by Donors' units in the quarter in which the survivor dies shall be paid by the Trustee to the College at the first regular payment date after the death of the survivor of the Donors to be used by it for the above described purpose.

(C) Notwithstanding any of the foregoing provisions:

(1) JOHN DOE may, by his Will, revoke the survivorship payments for JANE DOE from his share of the joint property interest in the Life Income Gift. If he exercises that right, the Trustee's obligation to make the payments as to his interest in the Life Income Gift shall terminate with the

regular payment date next preceding his death and an amount equal to one-half of the value of Donors' units in the Fund shall become the absolute property of the College, shall be withdrawn as provided in the Plan and be paid to the College to be used by it for the above described purpose. In such case, any income earned by JOHN DOE's share of the Donors' units in the quarter in which JOHN DOE dies shall be paid by the Trustee to the College at the first regular payment date after JOHN DOE's death to be used by the College for the above described purpose.

(2) JANE DOE may, by her Will, revoke the survivorship payments for JOHN DOE from her share of the joint property interest in the Life Income Gift. If she exercises that right, the Trustee's obligation to make the payments as to her interest in the Life Income Gift shall terminate with the regular payment date next preceding her death and an amount equal to one-half of the value of Donors' units in the Fund shall become the absolute property of the College, shall be withdrawn as provided in the Plan and be paid to the College to be used by it for the above described purpose. In such case, any income earned by JANE DOE's share of the Donors' units in the quarter in which JANE DOE dies shall be paid by the Trustee to the College at the first regular payment date after JANE DOE's death to be used by the College for the above described purpose.

4. The Donors may, from time to time, add property acceptable to the Trustee to the Fund.

5. No bond or other security shall be required of the Trustee in any jurisdiction.

6. No estate, inheritance or other death taxes with respect to the interest in the Fund attributable to the Donors' units shall be allocated to or recoverable from such interest and the Donors agree not to make any inconsistent directions in their respective Wills.

7. This Agreement is irrevocable. It is made pursuant to, and shall be interpreted in accordance with, the laws of the State of Connecticut. However, in any conflict with Internal Revenue Code Section 642(c)(5) and the regulations thereunder, that Code section and the regulations shall govern.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement the date first above written.

_____ (L.S.)
JOHN DOE, Donor

_____ (L.S.)
JANE DOE, Donor

(Seal)

THE CONNECTICUT BANK AND TRUST COMPANY

By: _____

(Add appropriate acknowledgements and Schedule "A")

Social Responsibility Policies

Amherst College

October 30, 1972

THE TRUSTEES OF AMHERST COLLEGE
STATEMENT OF ENDOWMENT INVESTMENT RESPONSIBILITY

The Trustees of Amherst College recognize the wide interest in the Amherst community in the moral and social implications of the management of the College's endowment. The purpose of this statement is to set forth the Trustees' position on the responsibility they have in the investment of the College's endowment.

I. INVESTMENT OBJECTIVE

The Trustees' primary investment objective is to maximize the financial return for Amherst College over the long term. Such a policy is mandated by prevailing law, tradition, and the legal concept of fiduciary responsibility for funds given in trust to charity. Maximum return over the long term is particularly important to Amherst College because approximately one-third of its operating income is derived from investments. The recent decision of the Trustees to make available a portion of capital gain for operating purposes emphasizes the importance of the principle of maximum return. The long-range survival of the College as a strong private institution is, therefore, to a substantial degree, dependent upon the performance of the investment portfolio.

Notwithstanding the primacy of the criterion of maximum return, the Trustees recognize that it does not relieve them of further responsibility; that there can be compelling moral and social considerations in the administration of the endowment funds. The basic policy of maximization of financial return does not preclude the College from determining from time to time that investments in certain companies, industries, or countries may be undesirable, no matter how attractive the potential return. The College must also exercise the rights and obligations of ownership in a responsible manner, taking into serious consideration the moral and social implications of its actions.

II. SELECTION AND RETENTION OF SECURITIES

Maximum financial return over the long run is the primary criterion underlying all decisions to "buy" or "sell." A decision "not to buy" for other than financial reasons will be made only in cases where the Trustees determine that such investments would clearly contravene moral or social values. It is difficult to be specific about criteria for such a decision. However, in line with this policy, the Trustees would not invest in companies which, in their judgment, definitely cause social harm by violating existing laws relating to such basic human rights as health, safety or freedom. The Trustees would also not invest in companies whose basic policies do not subscribe to contemporary social values and responsibilities.

Consistent with the same criterion, the College will not buy securities for purposes which are not primarily financial. Securities, therefore, will not be bought primarily for the purpose of influencing a company's attitude toward moral or social values, or solely to achieve an objective which seems socially desirable.

A decision to sell for other than financial reasons will be considered if, in the opinion of the Trustees, the exercise of rights of ownership, i.e., vote and petition to management, will not, within a reasonable period of time, succeed in changing a company's attitude toward a moral or social problem which the Trustees believe requires a different policy by management.

III. EXERCISE OF RIGHTS AND RESPONSIBILITY OF OWNERSHIP

The College will normally exercise its rights of ownership by voting its shares at meetings of stockholders. Whenever appropriate, it may petition the management of the companies in which it holds investments, in person or by letter. The following guidelines will be followed in determining how to vote:

1. The College will vote for disclosure of a company's policies and practices in areas of public interest, such as ecology and personnel policies, to the extent such disclosures do not cause a company competitive disadvantage.

2. The College will vote for election to corporate boards of directors of qualified persons whose presence, in the opinion of the Amherst College Board of Trustees, will not only contribute to good corporate management but will also bring greater diversity of interest and concern for the public interest.

3. The College will not vote for propositions which are not related to the business of the company, even though the propositions, per se, might reflect desirable social goals.

4. The College will not vote for propositions which, while desirable, would put a company at a serious competitive disadvantage. It will, however, in such cases, express its concern to the management and urge it to seek industry-wide or governmental action to remedy the situation. If this does not appear feasible or, over a period of time, the management refuses to initiate such action, the sale of the stock will be considered.

IV. ADMINISTRATIVE PROCEDURE

The Investment Committee meets with the investment adviser approximately ten times per year. It advises him of any restrictions regarding purchases or desires for divestiture of certain securities for other than financial reasons. The investment adviser will be expected to abide by the decisions of the Committee and, finally, the Board of Trustees.

The Investment Committee is responsible for decisions as to how proxies are voted. It has delegated this responsibility to the Treasurer of the College, subject to the following understanding: He will keep the Investment Committee informed of any proxy issues involving moral and social concerns. He will simultaneously advise the Committee on Priorities and Resources of such issues. This Committee, in turn, is free to call to the Treasurer's attention any concerns it might have, which will be conveyed to the Investment Committee. In cases where proxies contain issues about which particular segments of the college community have strong concerns, the opportunity will be afforded, subject to possible limitations of time, for individual members to express themselves and make their views known to the Investment Committee. In these cases, the Committee on Priorities and Resources will prepare a summary of the issues involved and disseminate it among the interested persons. The Faculty, by vote, has established a procedure whereby advice and opinions of individual faculty members can be channeled to the Dean of the Faculty, and from there to the Treasurer and to the Investment Committee. Students are invited to follow a similar procedure.

The Trustees recognize that basic concepts of fiduciary and social responsibility, discussed here only in relation to the investment of endowment funds, apply to all forms of ownership held by The Trustees.

Social Responsibility Policies

University of Minnesota

Background Statement

University Policy on Social Responsibility in Investments

As individual members of society and of the University community, we recognize varying degrees of commitment to take affirmative action for social improvement. In both instances, we share a moral responsibility not to inflict harm on others. For this reason, the University of Minnesota, in its role as an institutional investor, must act to reduce or correct corporate social injury resulting from the activities of those corporations in which it invests.

We believe that adopting a policy to examine the social impact of University investments is commensurate with the University's primary role of education which, at all times, depends upon the preservation of a climate in which teaching and scholarly inquiry can be carried on unimpeded. Like other administrative functions, investing is independent of the academic process. But its purpose is connected to teaching, learning and research by virtue of its support of those efforts. The policy we propose maintains this distinction and the safeguard it implies. At the same time, it protects the University, as a stockholder, from having to approve every corporate practice regardless of its social consequences. Such a course is compelled neither by law nor by the conditions governing university life.

In recent years, public interest groups have consistently raised social issues at corporate annual meetings. Investors, including institutional investors, are being asked, and will continue to be asked, to consider their part in each controversy. Currently, the University does not vote its proxies. This practice has become inadequate in situations where not voting implies support for a particular position. Clearly, under these circumstances, a value-free position is impossible. Examples of serious issues which may arise are stockholder charges of illegal corporate activities in such areas as affirmative action or political fund raising. The University should be able to deny support of any obviously illegal activities of corporations in which it holds shares. In addition, by taking a more active role as institutional investor, the University should be able to stimulate public awareness and discussion of important social issues.

Admittedly, there are serious difficulties to overcome in establishing a policy to regulate corporate investment actions. Such a policy must adhere to laws governing tax exempt institutions and provide an internal mechanism to consider issues in a deliberate and orderly way. Decision makers not only must have access to sufficient information to make wise judgments, but also must be sensitive to faculty and student interests.

We have developed a set of guidelines which, we believe, will resolve many of these difficulties. They should be tested and refined for a period of time before being finally adopted.

Whatever the final guidelines, and whatever the practical difficulties, the University's responsibility to act as an ethical institutional investor is an imperative.

INVESTMENT PROCEDURES

An institutional investor has two main avenues for effectively using the potential power of its portfolio. First, it has options regarding the ownership of stock. Second, it can exercise judgment in the voting of its portfolio.

A. Purchase and Ownership of Stock

Ownership of bonds is a significantly less important issue for the ethical investor since there are no voting rights attached. Our concern here is primarily with stock ownership.

The University of Minnesota uses seven investment management firms. By agreement with the firms, the University does not direct particular purchases but can advise the investment counselors as to which stocks not to invest in. To date, this option has been used only with companies where potential conflict might exist because of substantial management/ownership interests of a University Regent.

In sum, the University can exercise power by instructing investment counselors not to invest in companies whose policies might involve the University either in unethical, or illegal, practices, or other procedures to which the institution is opposed.

B. Stockholder Power Exercised at Annual Meetings

The second main effort to influence corporations through our investment portfolio has to do with voting proxies at annual company meetings. Currently, the policy of the Board of Regents states that we do not vote proxies. Presumably the underlying assumption is that this action (non-action) results in a stance of neutrality. However, as shown earlier, non-voting is not, in fact, a neutral position; it is, instead, one which tends to favor management.

The process which ethical investors use to affect management policy is clearly delineated. Each company holds an annual meeting in the first quarter of the year. Investors holding shares on a particular day of record have voting rights. Stockholders receive notification of meeting date, ballots, and information on questions to be decided. In addition, stockholders may introduce agenda items. All procedures are dictated and rigorously monitored by the Securities and Exchange Commission. Each stockholder then votes his convictions.

COMMITTEE RECOMMENDATIONS

It is the primary recommendation of the University's Committee on Social Responsibility that this institution change its current policy of not voting. It is our opinion that the policy of routinely not voting the proxies is an abrogation of our educational responsibility.

We further recommend:

1) that the University follow a policy of routinely voting its proxies, casting the ballots with management;

2) that where an issue has been raised to which calling public attention might serve a useful educational function, the University not cast its votes on one side of the issue or another, but rather publicly announce its abstention from voting and express our view in writing to the company's chief executive officer. This abstention would focus attention on the issue and fulfill our educational role vis-a-vis the larger community.

3) that the University cast votes against management only in cases where a clear consensus exists within the University community on the merits of the issue. That circumstance is unlikely to occur often, but certainly would occur in cases where clear violations of the law are involved.

4) and finally, that if after study of a particular company, the issues they place on their agenda, and their positions relative to those issues, we conclude that said company is either in violation of law or has ethical positions to which the University is opposed, the University ask investment counsel to refrain from further association with that company.

Procedures for recommended policy changes are relatively straightforward. The final decision on firms from which we might withhold our proxies always rests with the Board of Regents. The Committee on Social Responsibility in Investments, in cooperation with the office of the Vice President for Finance, can efficiently provide the background information necessary for a reasoned decision. The University, on the Committee's behalf, has subscribed to the Investor Responsibility Research Center. This highly responsible private organization, based in Washington, D.C., provides an information service which has, as its main function, the developing of research reports on literally hundreds of industrial firms. It has an excellent reputation for objectivity and does a thorough job of providing current information to investors. Data on issues are provided far enough in advance of annual meetings to allow investors time for study and for sensible decisions regarding their own participation.

We have learned through perusing material developed by IRRC that many complex issues are involved during an annual meeting season. We recommend concentrating on one or two major questions each year since we cannot

effectively research each and every issue. For example, we might settle on minority hiring or environmental protection policies, using IRRC information as a basic resource. Well in advance of annual meeting dates, we would bring to the Regents recommendations on issues where we might wish to exercise our options either by abstention or negative vote.

At this time, we are not asking for a decision from the Board of Regents. Instead, we suggest that, for the next month we run a test of the recommended procedure, using materials from last year's meetings. By studying the major issues in the January-to-April 1975 period, we can determine which appear to be most vitally related to the University's ethical concerns and basic mission. We will then be in a position to recommend to the Regents suggestions for action. This experiment will give us experience vital to evaluating 1976 investment issues.

In summary, then, we ask that the Regents consider changing the existing University policy of not voting proxies at annual meetings. Prior to the time of making the final decision, the committee will pursue the trial method described above. We will return in late 1975 to discuss the matter further. If the mechanism appears workable, we will recommend a policy change to allow the University to operate as an ethical investor in the 1976 annual meeting season.

At the conclusion of the 1976 season, we might wish to review our holdings with the possibility of instructing investment counsel to refrain from investing in certain companies. However, each decision would be carefully reviewed by the Committee, working closely with the Office of the Vice President for Finance and would require the consideration and approval of the Board of Regents.

Social Responsiblity Policies

Smith College

The Social Responsibility Dimension of Investing the Smith College Endowment: Some Objectives and Policies

Objectives

The Trustees of Smith College seek to accomplish three principal objectives. These are not always compatible when narrowly conceived at a given point in time, yet they can be reconciled by rational people who seek rational course of action. These are the three objectives:

1. Sophia Smith's Will. The purpose of "higher and more thorough" education is clearly to equip young women so that "their weight of influence in reforming the evils of society will be greatly increased" and "their power for good will be enlarged." The commitment of the College, therefore, is not exclusively to learning nor is it to the furnishing of the mind with a body of inert knowledge. In modern language, the call is to social action, not merely to the cultural growth and self-realization which are basic in the educational process.

This imperative urges that all aspects of Smith College's activities, potentially including even endowment fund investments, be directed by a sense of awareness of social and moral issues.

2. Fiduciary Responsibility. The legal and moral obligation accepted by the Trustees in receiving gifts and bequests for the specific or general purposes of the College is to maximize the productivity of the assets in order to maximize the effectiveness of the donor's effort to aid achievement of an educational objective. No one gave endowment to Smith College to cure the world's evils or to bring peace in our time. Rather, the gifts were made to support a specific purpose, like a professorial chair, a library, an art collection, a science laboratory, or student aid.

The Trustees' responsibility, therefore, is to discharge their trust as effectively as possible, so that each segment of the endowment will fulfill the donor's intention. This means seeking the best possible return consistent with avoidance of the risk of loss. The educational objectives of the College will be best served by the best income obtainable. With greater resources, educators will be better able to carry out the mission of Smith College. Investments only support that mission; they are not instruments of mission in themselves.

3. Academic Neutrality. Of course the College is concerned with the goals of society. It should be a forum for analysis, debate, and the search for truth. Moreover, this third objective is that individual faculty members, students, and administrators be free to express themselves on all sides of major social issues. If the College takes positions as an institution, it can no longer serve as a home for intellectual freedom in which its members can hold and teach contrary

positions without pressure to conform.

One of the most precious academic rights is the right to dissent. This right is also precious to our society; but this is the right of the individual member of the college community and its exercise should in no way compromise the freedom of others. When an educational institution, as a corporate body, takes a position by official pronouncement, by formal resolution of the Trustees, or by a portfolio investment decision, there has been an impairment of its strength as a forum for discussion and debate.

* * *

The handling of the investment funds of the College should not only be consistent with the foregoing objectives, but it also must not be inconsistent with applicable provisions of federal and state laws. The state courts have power to regulate the fiduciary behavior of the Trustees of charitable trusts and corporations, and the federal and state taxing authorities have the power to enforce the conditions upon which a college enjoys federal income tax exemption (and the benefit of receiving deductible contributions) and exemption from state and local property taxes.

Within the bounds marked by these objectives, the general fiduciary obligations of the Trustees and applicable federal and state law, the Trustees of the college have considerable discretion in fashioning their investment policies to take into consideration the College's social responsibility as an investor.

One reaction to this listing of these three objectives, and of the legal considerations, is that a wide range of questions are raised but that only some of the issues, fortunately, impinge upon endowment fund investment decisions. It should be possible, therefore, for the Investment Committee to find enough nice, clean, neutral investments to provide productive employment for all of Smith's modest endowment funds.

The reality, of course, is that there are no absolutely "pure" investment opportunities. There are only perhaps "more acceptable" and "less acceptable" alternatives. The great issues of today, peace, social justice, national priorities, and the preservation of the environment, arise in all sectors of the American economy. The business sector in which investments are made is involved in a myriad of ways in all of these issues. How, then, can the Trustees of Smith College establish a program and procedures to discharge their investment responsibilities both to the ongoing work of the College and to the society in which that institution seeks to continue to advance toward the goal of academic excellence?

General Policies and Procedures

The responsibility for the management of Smith's endowment

rests with its Board of Trustees. The Board of Trustees has the assistance in this area of the Investment Committee, composed of members and non-members of the Board of Trustees and the Treasurer. In turn, the Investment Committee relies on the Trust Department of a bank which provides investment advice and custodial services for the endowment funds of the College. The securities owned by Smith are not registered in its name, but are held by the custodian in street or nominee name.

In developing policies we must consider: (1) the standards that should govern the College decisions in the purchase or sale of specific securities; (2) the standards that should govern the role of the College as an investor and shareholder once it has acquired a security, and (3) the administrative mechanism that should be used in reaching decisions in individual cases.

1. Considerations in the Selection of Securities

We must begin with an awareness that for a college such as Smith, investments are not an end in themselves, but instead are a means of providing funds for carrying on its stated purposes and activities. We realize that few corporations in our complex society will deserve the highest praise in every aspect of their operation. Simple guidelines cannot be articulated by which to judge precisely the relative social responsibility of different companies. Any attempt thoughtfully to produce such a ranking would involve an enormous expenditure of time in gathering all the relative facts about the companies to be ranked. Even after such an effort were made, it is probable that any conclusions produced would command far less than unanimous support since reasonable men and women are very likely to disagree on the relative weight to be given to each factor. However, the main thrust of a business is recognizable. It is possible to identify some corporations or industries whose actions or policies do not deserve endorsement by the intellectual community represented by Smith College. We believe that the avoidance of investment in such companies as might be included in this latter category should be a specific and deliberate part of the investment policy of the College.

Therefore, in determining what securities to buy, maximum economic return should be the primary consideration. However, the Trustees may exclude from their consideration of investment opportunities certain corporations or industries on the basis of moral or legal considerations.

Some disagreement with the management on socially related issues should not require sale of a security once an investment has been made. If the Trustees are satisfied after careful investigation that a company whose shares it holds is engaged in illegal or immoral conduct, and it is unlikely that within a reasonable period of time the exercise of shareholder rights by the College will succeed in modifying the company's activities, then the College should sell its shares.

2. Considerations in Acting as a Shareholder

Once the College has made an investment in the stock of a company

it is faced with the necessity of deciding how to exercise its voting privilege.

, We accept the role of interested investors, aware of the world around us and sensitive to the issues of our time. We have no economic power and seek none. Furthermore, we do not think that corporate decisions should be made solely by the weight of investment dollars, and we recognize our responsibility to consider the greater implication of the endorsement of a company by an investment in its affairs.

When appropriate on the basis of ascertainable facts, we are prepared to express censure or encouragement to the managements of portfolio companies on their handling of their social responsibility. We are prepared to join with others in such expressions when the issues have clearly emerged and the position of the corporate enterprise in question is unmistakable. We are prepared to use our rights and responsibilities of ownership in letter verbal communications and voting of proxies for this purpose. We believe that such expressions of our views may often be more effective than selling the securities or refraining from their purchase. In such activities, however, we must be careful to avoid conflict with our third basic objective.

3. Procedure for Determining Action as a Shareholder

The Chairman of the Investment Committee should examine our proxies and vote them on all routine matters without further consultation. If, however, he identifies controversial issues outside of financial areas it is his responsibility to seek guidance from other members of the Investment Committee and the Committee on Planning and Resources. The Chairman should make his recommendation as to the action to be taken to the Board of Trustees or to the Executive Committee, which will make the final decision. A similar procedure will be followed on controversial matters arising at times other than annual or special stockholder meetings.

In the light of experience, we plan to review these policies and to reexamine our positions in specific cases as we recognize the complexity of the situations which arise in the normal course of events.

Social Responsibility Policies

Stanford University

REPORT OF THE TRUSTEES
ad hoc COMMITTEE ON INVESTMENT RESPONSIBILITY

* * * *

STATEMENT ON INVESTMENT RESPONSIBILITY

I

It is, by law and tradition, the primary responsibility of University Trustees to invest the University's endowment so as to maximize the financial return on those resources, taking into account the amount of risk appropriate for University investment policy. We believe this to be our primary responsibility in managing Stanford's endowment. This implies that in the great majority of cases, this goal of achieving the maximum return consistent with an appropriate degree of risk will be the dominating motive in investment decisions, as it will be in voting stock proxies for companies in which the University holds investment positions.

However, to say that the Trustees should never, under any circumstances, give independent weight to social, economic, or political considerations in determining investment policy or voting proxies on corporate securities clearly goes too far. The Trustees will expect to give independent consideration and weight to the possible social, economic and political implications of University investment policy in three classes of cases spelled out in III below.

II

The general legal and traditional presumption in favor of managing the University's endowment so as to maximize the financial return on those resources, taking risk into account, is, in our mind, strengthened by the following four considerations:

1. Most important, we as Trustees, concerned with investment responsibility, have no moral or legal right to speak for diverse elements of the Stanford community on controversial social, economic and political issues or to use the name or the resources of the University to support particular positions on such issues except where the issues directly impinge upon the activities of the University. Experience suggests that often it is precisely those issues on which some members of the University community feel most strongly that others differ most strongly.

2. For the Trustees to take positions on such controversial issues might understandably create resentment and divisiveness within the University community. It might also often create resentment on the part of past and potential donors to the University, who understandably hold widely differing views on such issues.

April 13, 1971
8.01

3. As a practical matter, the Trustees have no way in which they could, even if they wished, maintain detailed surveillance of the more than one hundred companies in which the University holds investment positions, over the wide variety of possible social, economic, and political consequences of those companies' actions. To do so would require establishment of a sizable staff, whose costs would be substantial.

4. In most cases, Stanford is a "small" stockholder with very little direct leverage on the actual behavior of the companies concerned, either through buying or selling a company's stock or through the way in which the stock is voted on proxy issues. This consideration is not necessarily controlling, but realism requires that it be faced, even where from Stanford's point of view the number of dollars invested in the corporation may be substantial.

Some propose that Stanford resources be used for direct subsidies to "socially desirable" activities. In such cases, quite aside from the above considerations, the Trustees operate within longstanding legal constraints. In general, the courts will not allow trust monies to be used in a way which does not agree with the stated purpose of the trust.

III

The Trustees, usually acting through the Committee on Investments, will nonetheless expect to give independent consideration and weight to the possible social, economic and political implications of University investment policy in the following three classes of cases:

A. Where the University's own actions themselves directly produce substantial social, economic, or political side-effects on others--for example, where University land-use policy may produce direct substantial effects on nearby communities. The University should be a good citizen in the community in which it exists. Many such side-effects of University action are already covered by law, for example the requirement that the University bear its share of utility costs when it installs new residential or industrial sub-divisions. In principle, such side-effects should generally be controlled by duly passed laws, relecting the duly registered views of the entire communities involved. However, where side-effects are clearly not covered by legal regulation, it will often be proper for the University to consider them in making its own decisions.

   We recognize that in such cases opinions will frequently differ as to the importance of the side-effects and the weight they should be given in University decisions, for example, on the issue of housing. On any given issue, it will always be possible to find some individuals who hold strong views that the side-effects should be given great weight, while others disagree. In general, the Trustees will expect to give a greater weight to such views within the community as they approach consensus.

April 13, 1971
8.02

B. In cases of financial investment of the University's endowment, where:

1. The undesirable social, economic, political acts of the company involved are direct and substantial;

2. Substantial consensus exists in the University community on the undesirability of the acts or effects in question; in such cases the Trustees should be sensitive to the views of the community. We recognize that there is no easy way of measuring the degree of consensus on many issues in a University community. Nonetheless, unless the Trustees believe something approaching consensus exists, as is indicated above, we feel that we have neither a legal nor moral right to speak for the University through special investment policy on such controversial issues; and

3. The economic costs to the University of taking action are commensurate with the probable effects of that action. Where the University holds large blocks of corporate stock, these can often be sold over short periods only at a substantial economic cost. Moreover, some companies criticized may yield substantially higher returns than those preferred by some members of the community. [Similarly, University land management and other direct actions may meet desired social objectives only at an appreciable cost to the University]. Not to take these costs explicitly into account would be irresponsible.

Each individual investment must be judged on its own merits, using above general guidelines. Many companies will rate high on some "social" criteria and low on others. For example, a company that has been a leader in providing employment for minority groups at home may have investments in countries which follow policies disapproved by some members of the community. Optimal choice of investments is a complex problem at best, and addition of social, economic, and political considerations further increases this complexity. There is no substitute for independent judgments, weighting different factors appropriately in each particular case.

C. In voting proxies on corporate securities, where the three conditions specified in B, above, are met. Normally, the Committee on Investments will follow its existing policy of voting proxies for management on routine matters. However, when special issues appear on proxy solicitations, duly approved by the Securities and Exchange Commission, the Committee will consider them individually, and will give particular attention to issues which fall within the Section B guidelines above. As with investment choices, each individual proxy case must be judged on its own merits.

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IV

To facilitate implementation of these guidelines, we expect promptly to designate a University official with the following two responsibilities:

a. To keep the Committee on Investments of the Board of Trustees informed on cases where issues covered by the above guidelines may arise in such a way as to require special attention by the Committee.

b. To receive, for the Committee on Investments, information and suggestions from members of the Stanford community as to investments where special attention appears to be justified under the preceding guidelines.

We recognize, and urge others to recognize, the great complexity and difficulty of the problems involved in the issues considered above. We, therefore, view this policy as experimental and will expect to reconsider it in the light of accumulating experience.

Members of the ad hoc Committee:

G. L. Bach, Chairman
Ben. C. Duniway
Richard E. Guggenhime
Ira B. Hall
Denis A. Hayes
William R. Hewlett
Robert G. MacLean [student member]
Fred H. Merrill

Staff Assistance:

Rodney H. Adams
James V. Siena

Stanford University
Stanford, California

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